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NEWS SUMMARY

GENERAL

U.S. alters stance on budget deficit

The Reagan Administration yesterday appeared to be backing away from the strict, numerical targets it has set for the U.S. budget deficits next year—one of the key elements of its economic programme.

For weeks the target was a $42.5bn deficit in fiscal 1982. It was moved to $43.1bn last week when Mr Reagan announced his $16bn tax reform and spending cuts package. Yesterday, however, Mr David Stockman, the President's Budget Director, said it did not really matter if the deficit was $42bn or $45bn, or even $48bn or $49bn. Page 2

Belgians to vote

Attempts to form a coalition government in Belgium failed and a general election is expected to be held on November 8 or 15. Page 2

French initiative

French President Francois Mitterrand and King Khalid of Saudi Arabia met for talks to find a Middle East peace settlement.

Thatcher on PLO

Prime Minister Margaret Thatcher said in Kuwait that Britain did not hold meetings at ministerial level with the PLO because of its association with terrorism.

Chemical inquiry

A public inquiry into the burial of contaminated chemical waste by one Coalite group 13 years ago opens in Matlock, Derbyshire, tomorrow. Page 3

Sectarian attack

Irish Prime Minister Garret FitzGerald attacked sectarianism in the Republic in an Irish radio interview that could spark a major row between his Government and the Catholic Church.

Prescription rise

The Government is considering a 25 per cent rise in prescription charges to £1.25 as part of its public expenditure review.

Hijackers return

Three Yugoslav hijackers who gave themselves up in Cyprus after taking over a Yugoslav airline Boeing 727 flew back to Belgrade with their former hostages.

Mojahedin strike

Ten died and 40 were hurt when 100 Mojahedin guerrillas set buses on fire and clashed with security forces in Tehran.

Gulf siege ended

Iranian troops lifted the Iraqi siege of the oil refinery city Abadan after a year of the Gulf war, Tehran radio reported.

Peking offer

Peking renewed its offer to Taiwan to revive trade links and proposed selling oil at reduced rates to the island.

Prison protest

About 2,000 inmates refused food for the second day at Barcelona's Modela prison to protest over their conditions.

Borg to rest

Sweden's Bjorn Borg won his third Grand Prix tennis tournament of the year, the Geneva Open Title, and confirmed he would take a four month break.

Hadlee drops out

New Zealand cricketer Richard Hadlee dropped out of a competition in South Africa after being told that he could prejudice his country's international cricket relations.

BUSINESS

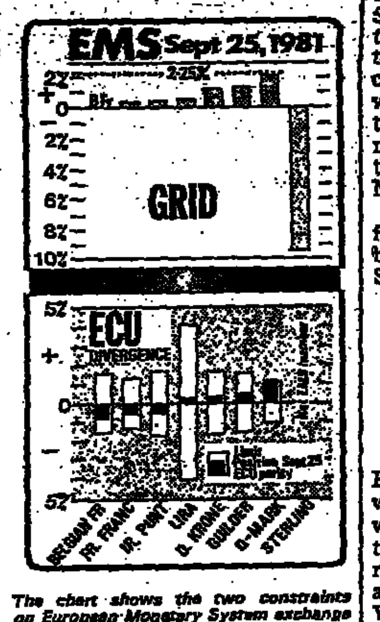
Plea for action on gold price

● CENTRAL BANKS should return to attempts to regulate the price of gold by intervening on the bullion market, said Dr Jelle Zijlstra, President of the Dutch Central Bank and the Bank for International Settlements at IMF headquarters in Washington.

● LONDON stock market's decline in the last two weeks has sharpened the Government's dilemmas over funding tactics in its attempt to control the money supply. Back Page

● UK STEEL producers want to announce firm increases in list prices in the New Year to reinforce the EEC Commission's efforts to restore price discipline. Back Page.

● PRESSURE eased in the European Monetary System last week. There was still some speculation over the possibility of a currency realignment at the weekend, which increased demand for the D-mark and pushed it beyond its divergence or alarm bell limit from central rates. The French franc failed to benefit from higher domestic interest rates and forward foreign currency restrictions, and was only firmer than the Belgian franc, which remained the weakest currency. Support for the Belgian unit continued, with the authorities releasing figures showing that at least BFr 20bn had been spent the previous week in supporting the franc.



The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from the "central rate" against the European Currency Unit (ECU), itself a basket of European currencies.

● CEMENT manufacturers meet building and civil engineering employers today to discuss proposed cement price increases this November. Back Page

● UK CAR registrations will reach 1.45m this year compared with 1.41m forecast in May, said the Society of Motor Manufacturers and Traders. Back Page

● U.S. INTEREST rates will fall several percentage points by the end of the year, says Lloyds Bank's economic adviser. Page 5

● U.S. settled a trade dispute with India by recognising its membership of a Gatt code regulating the use of export subsidies and countervailing duties. Page 2

● CITY bankers and brokers gave qualified approval to the Council for the Securities Industry's new rules governing stock market raids on a company's shares. Page 4; Editorial comment, Page 12

Healey scrapes through

BY RICHARD EVANS AND CHRISTIAN TYLER

MR DENIS HEALEY clung to the deputy leadership of the Labour Party last night in a contest with Mr Tony Benn that underlined how divided the Labour movement is over the direction it wants to take.

Mr Healey won 50.426 per cent of the vote against Mr Benn's 49.574 per cent in the second ballot of the party's new electoral college meeting in Brighton on the eve of the party's annual conference.

The third candidate, Mr John Silkin, was eliminated in the first ballot, in which he scored 18 per cent. Mr Healey took 45.4 per cent in the first ballot and Mr Benn 36.6 per cent.

Mr Healey's win was greeted with intense relief by party moderates. But Mr Benn's supporters gave notice that there will be no truce in the bitter fight for control of the Labour party.

It was clear that Mr Benn has every intention of fighting again next year. He will be an increasingly formidable challenger in view of the inroads he has made in the Healey vote.

The outcome of the dramatic vote on the opening day of the Labour party conference at Brighton showed that the internecine warfare between Left and Right is far from over.

The irony of Mr Benn's defeat is that he still holds most of the cards, and the ultimate target of the party leadership remains within his sights.

Mr Healey may have won the run-off against Mr Benn after Mr John Silkin dropped out in the first ballot. But the gap between the two was ominously close. The campaign also showed how effective and professional the Left is compared with the ill-equipped Right.

Mr Healey has won a little time for the Right to regroup. But the Labour Party undoubtedly will be locked in continuing combat as the general election draws nearer.

Though the result has certainly bolstered the sagging morale of party moderates, it is unlikely to stop the advance of the Left on a number of policy fronts during the week.

These issues — particularly unilateral disarmament, withdrawal from the Common Market without a referendum, and much more interventionist economic policies — will further isolate Mr Healey from the mainstream of conference opinion.

It will then be open to Mr Benn to launch during the next year a further campaign attacking the rejection by the Parliamentary Labour leadership of conference decisions.

A key question will be what role the trade unions, split down the middle over Mr Benn's candidacy, will take, given the narrow Healey victory. They will not want a continuing corrosive campaign over the coming year. But they may not have the influence to stop the Bennite campaigners who sense ultimate victory.

Any further seepage of MPs to the Social Democratic Party—and there is certain to be some despite Mr Healey's win—will reduce the Right-wing vote at next year's conference and further weaken the opposition to Mr Benn.

Earlier, Mr Benn's campaign had been dealt two apparently devastating blows by unions he had expected to support him. At first, the transport workers, the biggest single constituent of the electoral college with 1.25m votes, decided to back Mr Silkin on the first ballot. Then the Left-led public employees' 600,000 votes were given to Mr Healey.

However, after the first ballot the transport workers were thought to have swung back to Mr Benn giving him the union votes he needed to stay in the race with a chance of winning.

Conference reports, Page 6

Mr Healey in Brighton yesterday

U.S. rebuffed in move to tighten IMF lending

BY DAVID MARSH IN WASHINGTON

U.S. ATTEMPTS to tighten the International Monetary Fund's spending policies were yesterday fought off by a combination of developing countries and smaller industrialised nations in the interim committee, the fund's powerful steering panel.

The rebuff for the U.S. was delivered on the eve of the IMF and World Bank annual meeting here this week. It seems likely to lead to the fund broadly maintaining its recently increased lending to hard-pressed developing countries, in spite of well publicised doubts from the Reagan Administration that the IMF's loan conditions have been tight enough.

As another sign of the increasing influence of developing countries over the fund's operations, the interim committee also reached a compromise agreement over the next allocation of Special Drawing Rights, the IMF's composite currency reserve unit. Their allocation was opposed by the U.S. and other major industrialised countries.

The final communique of the interim committee, made up of ministers and central bankers from 22 constituencies representing industrialised and developing countries, says governments must continue to give priority to anti-inflationary policies. In spite of the international recession, premature attempts to expand demand could trigger further inflation, the communique said.

The fund must continue to impose lending conditions which supported countries' attempts to reduce current account imbalances, the communique continued. But in a signal that the IMF spending criteria seem unlikely to change significantly, the communique "strongly endorsed immediate emphasis that the fund has been placing on effective investment programmes."

Mr Allan MacEachen, the Canadian Finance Minister who chairs the interim committee and who is noted for his support for developing countries, said the IMF's staff could thus take "strong encouragement." At a closing press conference yesterday, M Jacques de Larosiere, the IMF managing director, was clearly pleased at the outcome.

On the SDR issue, the U.S. and the other big industrialised countries — West Germany, Japan, the UK, and France—maintain that no new allocation of SDRs was needed at present because of sufficient world liquidity. The developing countries had asked for disbursement of SDR 12bn over three years from January 1.

Although the communique made no specific recommendation about the allocation, it directed the fund executive board to consider whether a disbursement of SDR4bn annually might be made later than January 1. There seems to be support for this not only from developing nations but possibly from some of the bigger industrialised countries.

Prompted by Brazil, the Netherlands, Canada and Belgium, this compromise papers over the divide between the American-led camp and the Third World.

Whether it will find eventual favour in the executive board is still unclear. But some larger countries like France and Germany have indicated that their opposition to an allocation from January 1 does not necessarily extend to the question of a distribution of SDRs later on.

The possibility of the IMF borrowing for the first time on the private capital market to top up its resources "should remain open" in the light of future commitments and cash in hand, the interim committee said.

For the time being the IMF is sticking to its target of borrowing around SDR 6 to 7bn a year over the next two years from outside sources, mainly central banks and member governments.

This barely differs from the U.S. position put by Mr Donald Regan, the U.S. Treasury Secretary, last week.

He said the U.S. had no philosophical objections to the IMF going to private markets, but simply saw no need for it to do so now.

Mr Macaechen said the interim committee's open-minded view on private borrowing was genuine and represented "no sliding away" from the option.

But the interim committee, whose deliberations this weekend Mr Macaechen described as "harmonious" has undoubtedly dealt the U.S. a setback. Mr Regan last week said the U.S. wanted the IMF to tighten its lending policies, requiring borrowers to take tougher adjustment steps to climb out of their current account deficits. It did not want the IMF to create and allocate to members any more SDRs in the current state of "excess liquidity" in the world economy.

After the meeting, M de Larosiere, clearly delighted at the overall endorsement of recent IMF policy, launched a strong defence of the fund's conditionality.

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U.S. angers Third World, Page 2

New formula lifts cost of French nationalisation

BY DAVID HOUSEGO IN PARIS

THE French Government will have to pay about FFr 35bn (£3.52bn) for the takeover of the major industrial groups and the banks included in the nationalisation Bill the Cabinet approved last week.

The estimate, based on calculations made by the French Securities Commission (COB) of the compensation per share due to shareholders under a revised compensation formula, adds weight to evidence presented by the Government to the Parliamentary Commission examining the Bill before it is put to the National Assembly.

The calculation takes in the five major industrial groups, 36 banks including the Paribas and Suez investment and banking groups, and outstanding private shares in the three existing nationalised banks.

Excluded, however, are the cost of the 51 per cent stakes the government will take in Matra, the weapons manufacturer, and Dassault, the aircraft company. Also left out are the three groups with large foreign shareholdings — CII Honeywell Bull, Roussel Uclaf and ITT France — with whom the Government is to negotiate.

The COB said at the weekend it was publishing its estimates—to which it has added some reservations—to help shareholders judge the impact of the Government's action. There was considerable confusion on the Bourse last week as to what the payout would be for individual companies.

The compensation terms are likely to be a continuing source of dispute, with many Socialist deputies arguing that the Government has caved in to shareholder lobbies and its own legal advisory body, the Conseil d'Etat. But some shareholders still seem prepared to carry the battle for better terms to the courts.

Though the drain on the state's finances by the nationalisation measure, will be heavy, it is difficult to measure precisely as payment is to be made in the form of 15-year bonds with interest linked to prevail-

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Problems at Times increase

By Brian Groom

THE NEW CRISIS at Times Newspapers deepened last night as hopes faded that this morning's edition of The Times would be printed.

The dispute concerns machine minders at the Sunday Times, which failed to appear yesterday. Exploratory peace talks began yesterday morning at the Advisory Conciliation and Arbitration Service. There was no sign of a breakthrough as they continued into the evening and the two sides were talking separately to Conciliation officers.

The 101-strong Sunday Times machine-minders' chapel of the National Graphical Association, which is at the centre of the dispute, mounted a picket of The Times, which fellow NGA members refused to cross. Management said it hoped to produce at least part of the paper's 300,000 print run if the picket was lifted,

Continued on Back Page

Reagan to speak on deterrent

BY REGINALD DALE, U.S. EDITOR IN WASHINGTON

PRESIDENT Ronald Reagan will announce his decisions this week on two key components of the U.S. strategic nuclear deterrent, the MX mobile missile and a new long-range bomber, the White House said at the weekend.

The announcement will roughly coincide with the expected publication by the Pentagon this week of a booklet documenting the massive and continuing Soviet arms build-up. The aim is to persuade both American and European public opinion that Moscow has embarked on a major spending campaign to gain military superiority over the West.

The White House statement said Mr Reagan would hold his fourth televised news conference in the next two weeks. It came as Mr Alexander Haig, U.S. Secretary of State, was preparing for the second round of his talks with Mr Andrei Gromyko, Soviet Foreign Minister, in New York today.

U.S. concern at the Soviet arms build-up is one of the many points Mr Haig is stressing in his two New York meetings with Mr Gromyko. The first was on Wednesday.

The decision on how to base the MX missile has given Mr Reagan one of the first major political headaches of his Administration. He is now regarded as certain to drop President Carter's extravagant plan for hiding 200 missiles in 4,600 shelters scattered round Utah and Nevada.

One of the options proposed by the Pentagon is for a smaller force of perhaps 100 missiles in up to 1,000 shelters, possibly defended by an anti-ballistic missile force. Such a plan would probably be accompanied by further studies of other basing methods.

The B-1 supersonic bomber, cancelled by Mr Carter, was originally designed to take over from the ageing B-52 as America's primary manned strategic weapon.

Doubts have arisen that it is worth reviving the project, for what might be only a few years, in the light of present research on a more modern long-range bomber, Stealth, that employs top secret new technology to evade radar defences.

The contents of the Pentagon's glossy booklet on the Soviet build-up are unlikely to come as a surprise, particularly as large chunks of it were printed in yesterday's New York Times.

Some new intelligence information is revealed, particularly about the military function of supposedly civilian factories, but more sensitive data has been held back.

The booklet, illustrated with photographs and artists' sketches, says Russia's military production base continues to grow at the expense of all other components of the Soviet economy.

A preface signed by Mr Caspar Weinberger, U.S. Defence Secretary, says that 135 major military industrial plants operate in the Soviet Union, with more than 40m sq metres of floorspace, a 34 per cent increase since 1970.

In 1980 these plants produced more than 150 types of weapons systems for Soviet forces and for export to client-states and developing countries.

"There is nothing hypothetical about the Soviet military machine. Its expansion, modernisation and contribution to projection of power beyond Soviet boundaries are obvious," Mr Weinberger says.

No sign of recovery, says CBI

BY JOHN ELLIOTT, INDUSTRIAL EDITOR

BUSINESS ACTIVITY in manufacturing industry remains severely depressed and there are no firm signs of general recovery. But some companies are raising their prices despite low demand.

These are the main points in the Confederation of British Industry monthly survey of industrial trends, published today.

They support the view of industrialists and reports from other quarters that the end of therecession is not yet in sight, and that prospects at home and abroad remain gloomy.

Export demand appeared to fall away in August, according to the survey, following an improvement a month earlier.

A balance of 50 per cent of respondents said their export order books were below rather than above normal, compared with only 44 per cent in the last survey.

But the CBI's economists believe that the difference may have been caused by an exaggerated reaction to the fall in the value of sterling a month ago. They say that the underlying trend still shows a steady but small improvement in export demand. Historically, however, it is still very weak.

The survey was conducted in the first fortnight of this month before the rise in interest rates. If questioned now, some of the 1,850 manufacturing companies covered in the survey might take a more depressed view of the levels of their stocks and the prospects for improved output.

The proportion of companies saying their stocks were more than adequate has fallen from plus-16 per cent in August to plus-14 per cent.

This balance is the lowest since November 1979, but may be partly caused by companies running their stocks so low that they want to avoid further cuts, rather than having great economic significance.

Forecasts of trends in volume of output in the next four months are the same as in August, with 17 per cent of the companies expecting an improvement, 15 per cent a fall, and 68 per cent no change.

Expectations are strongest in the chemicals and engineering industries.

There is a marginal improvement in the proportion of companies saying their order books were above rather than below normal. But the CBI has suggested in recent months that this may be partly caused by companies adjusting their assessments of what is normal in the light of the recession.

Average domestic selling prices are expected by 36 per cent of the participants to rise in the next four months, with 5 per cent expecting a fall. This suggests some slight strengthening in selling prices.

CONTENTS

OVERSEAS NEWS

Walesa defends worker directors decision

BY CHRISTOPHER BOBINSKI IN GDANSK

A MASSED attack yesterday by opponents of last week's compromise on labour reforms between the Solidarity leadership and the Government forced Mr Lech Walesa, the union leader, to defend his policies at the union's congress here yesterday.

The row, which lasted most of the day, centred on the workers' self management law passed by parliament on Friday after Mr Walesa and the Solidarity executive had agreed to a compromise formula on who was to choose management in industry.

This law was passed by deputies in Parliament after they threatened a revolt against a last-minute attempt by the party leadership to revoke their side of the bargain.

"I'm not a theoretician but a pragmatist," Mr Walesa said. "We must put together a programme which will enable Solidarity to find its place in Poland as it is now and then go forward by small steps. Some here would want to overthrow everything, Parliament included, but in five years they would impose greater totalitarianism than we have now," he added.

The attacks came from delegates who argued that the leadership had acted undemocratically and that the compromise left too much power in the hands of the central authorities. The leadership had also ignored a resolution passed at the previous stage of the congress earlier this month which had called for a referendum on the issue and a boycott of any officially sponsored law.

However, despite the angry speeches, delegates realised that it was now too late to call a boycott of the law and risk a confrontation with the authorities on the issue. A majority is expected to back the compromise in the voting today.

Members of "Network," a group containing representatives of 17 of the largest plants in Poland, which has been strongly in favour of workers' control, have decided to back the compromise, along with influential figures like Mr Karol Modzelewski a delegate from Wroclaw and Mr Jacek Kuron, the dissident.

Mr Jan Rulewski, the ambitious head of the Bydgoszcz region, who is fast acquiring a reputation as the leading radical at the congress attacked the compromise. "We decided on having a strong centralised leadership in the union so that we could smash the huge bell of totalitarianism with our powerful hammer," he said.

Bankers pessimistic on debt talks

BY PETER MONTAGNON, EUROMARKET CORRESPONDENT

POLISH officials are meeting Western bank creditors in Vienna today and tomorrow for a further round of discussions on rescheduling this year's debt repayments.

Bankers close to the talks say there is little hope of agreement being reached in the negotiations which have been going on for some six months.

The Polish side has made no final reply to conditions set out by the banks before the summer holidays. These would allow for rescheduling 95 per cent of debt due between March 26 and the end of the year at a margin of 1¾ per cent above London interbank rates.

Poland has dropped its resistance to some of the terms proposed, such as the margin, which it hoped to see reduced, but there are two stumbling blocks to it accepting the package.

First, it would have to find the downpayment of 5 per cent of the debt due which is not being rescheduled, as well as money to bring its interest payments up to date.

Second, the rescheduling proposals call on Poland to furnish the banks with details about its economic recovery programme and no programme can be worked out with the country in its present economic and political disarray.

At best, bankers say, the latest meeting might result in acceptance in principle of the proposed package.

Mr Nicolae Ceausescu

Romania to help private farmers

By Leslie Colitt in Bucharest

ROMANIA has decided to support private farming in an attempt to relieve the worsening food shortage. Untilled land is to be distributed to workers and collective farmers for the first time since the post-war collectivisation of agriculture as the leadership has decided that private farming is more productive.

Mr Ovidiu Popescu, head of planning at the Ministry of Agriculture, said that 45 per cent of meat production comes from private land worked by collective farmers and their wives in their free time, as well as from peasants in mountainous regions.

Industrial workers are to be given unused plots belonging to factories, towns and villages. They and peasants will be given credits to purchase equipment and fertiliser, and will be given guaranteed supplies of fodder in exchange for contracts to deliver their output to the state. Prices paid to peasants will be brought up to the same level as those paid to collective farmers.

Mr Popescu said that to increase the sagging production of state and collective farms, the rigid system of fixed payments for units of work is to be changed. Until now a tractor driver was paid a flat rate for ploughing or harvesting a certain amount of land, irrespective of how he did the job. From now on part of his income will be based on what was produced.

Pakistan nuclear move kept secret, says Senator

BY DAVID BUCHAN IN WASHINGTON

THE REAGAN Administration, which wants Congress to resume aid to Pakistan, has withheld information that Pakistan has reached a further stage of nuclear self-sufficiency, possibly heralding a nuclear weapons programme, according to Senator Alan Cranston.

The senior Democratic senator said Pakistan was using domestically-produced fuel in its Karachi nuclear reactor, and the International Atomic Energy Agency (IAEA) believed effective surveillance over this reactor's use would henceforth be almost impossible.

The IAEA monitors only part of the Pakistani nuclear programme. While the Karachi reactor is subject to IAEA inspection, Senator Cranston said, the country's fuel fabrication plant, particularly its secretly-built enrichment facility, are off limits to foreigners.

Senator Cranston raised the issue during confirmation hearings of Mr Ronald Spiers, the State Department's director of intelligence and research, to be the new ambassador to Pakistan. Mr Spiers confirmed that Pakistan was making its own fuel at the Canadian-supplied reactor outside Karachi, and said he did not know why Congress had not been informed.

Virtually all U.S. aid to Pakistan was cut off in April 1979, under the law that bars aid to countries suspected of developing nuclear weapons. The Reagan Administration wants Congress to repeal this law, or at least waive it for Pakistan's case, so that the $3.2bn (£1.7bn) military and economic package negotiated with President Zia ul-Haq's Government can take effect.

This aid includes the sale of 40 F-16 fighters, and the Administration has made special provisions to dispatch some of these quickly from Nato.

The Reagan Administration has warned President Zia that U.S. aid would be jeopardised if Pakistan exploded any nuclear device such as India did in 1974. The U.S. saw no distinction between nuclear explosions for ostensibly peaceful purposes or outright military ends.

Senator Cranston, in another public warning about the Administration's non-proliferation policy, warned about six months ago that Pakistan had built a tunnel that U.S. intelligence suspected might serve as a possible nuclear test site.

Mr David Stockman

Stockman backs away from deficit target

BY REGINALD DALE, U.S. EDITOR IN WASHINGTON

THE REAGAN Administration yesterday appeared to be backing away from the strict numerical targets it has set for the U.S. budget deficit next year—one of the key elements of its economic programme.

For many weeks Mr Reagan and his leading advisers insisted that the Administration was determined to hit its target of a $42.5bn deficit in fiscal 1982, which begins on October 1. When Mr Reagan announced his new $16bn tax reform and spending cuts package last week, the target was moved marginally upwards to $43.1bn.

Yesterday, however, Mr David Stockman, the President's Budget Director, said it did not really matter if the deficit was $42bn or $45bn, or even $48bn or $49bn. The important thing was that the overall direction should be downward. A similar view has been expressed by Mr Malcolm Baldrige, the Commerce Secretary.

The likely size of the 1982 deficit, which has alarmed Wall Street and the financial markets, was the main reason for Mr Reagan's decision to seek fresh spending cuts for 1982—just two months after his first, record $35bn round of spending cuts.

The Administration now admits that the 1982 deficit is likely to reach almost $80bn if its new cuts are not approved by Congress, although many analysts have put the figure considerably higher.

Mr Stockman said there had to be a margin for error, as the Administration was sure to find unplanned spending and overruns as the year progressed. The essential point was that the Administration should not "lose control" over next year's budget, as had happened for the past 10 years.

If control was lost it would never be regained. As long as the deficit was coming down, however, the Administration would have achieved its goal.

The latest cuts were bitterly criticised as "fundamentally unfair" by Senator Edward Kennedy of Massachusetts yesterday. "It is government of the rich, by the rich and for the rich," he said.

Belgian poll likely as Claes mission fails

BY GILES MERRITT IN BRUSSELS

MR WILLY CLAES, Belgium's Economic Affairs Minister, failed this weekend to avoid a General Election, and a damaging political confrontation between the country's rival French-speaking Walloon and Dutch-speaking Flemish communities now seems inevitable.

Mr Claes was appointed "informateur" by King Baudouin four days ago in the wake of Mr Mark Eyskens's resignation as Premier, to evaluate the chances of assembling a new coalition government. He will tell the King today that disagreements over economic policy are so irreconcilable that a political rescue bid is out of the question.

Polling day is expected to be set for November 8 or November 15, three years after the country's last indecisive elections.

The issues that provoked this latest Belgian Government crisis—the sixth in two years—is the future of the stricken steel industry in Wallonia. To back up the demands being made by Walloon Socialists for a major cash injection without comparable restructuring and job losses, steel workers in the Liege area have now elected to go on strike on October 1.

Their action, combined with the increasingly serious secessionist threats being made by Walloon political leaders, makes the forthcoming election potentially highly divisive.

U.S. arouses Third World's ire at IMF conference

BY DAVID MARSH IN WASHINGTON

"THE AMERICAN Administration ought to have a relationship to the Fund more like that of a stern senior partner and less like that of some absentee landlord." That was the view of the conservative Wall Street Journal last week—and one that U.S. delegates at this week's annual meeting of the International Monetary Fund and World Bank are trying to live up to.

Mr Beryl Sprinkel, the Treasury Under-Secretary for Monetary Affairs, puts it this way: "We want to make sure that the Fund continues its long-term historical role of enforcing conditionality on borrowers." He says that developing countries should follow the same line as the Reagan Administration in steering back to financial rectitude.

His prescription, given in a weekend Press briefing amounts to a mixture of fiscal restraint, lower monetary growth, reduced interference with the market system and eventual elimination of balance of payments deficits.

This implies some lowering of calls on the Fund's resources. Mr Sprinkel believes that if the IMF is doing its job properly by forcing countries to take action to repair payment imbalances, then inevitably there will be fewer deficits left to finance.

To the criticism that this will be a painful deflationary shock to developing countries already hard hit by high interest rates and expensive oil, Mr Sprinkel replies that they should not have got into a "state of disequilibrium" in the first place.

Not surprisingly, this sort of talk has not gone down well with Third World delegates assembling here in the Washington Sheraton—a sprawling mirrored edifice.

The group of 24 developing countries, in a communique issued late on Friday, assailed the U.S. position on almost every point, ranging from monetarism to the plan to sell off strategic raw material reserves, which is likely to depress the earnings of some commodity-producing nations.

Although the major industrial countries stress that the IMF should not become simply a development institution, some of the major industrial countries also have reservations about the U.S. approach. The French, for instance, also oppose the developing countries' call for a new allocation of Special Drawing Rights to boost world liquidity. But M Jacques Delors, the French Finance Minister, is making clear his hope that sabre-rattling from the U.S. will not spoil the chances of the North-South summit in Cancun next month.

WORLD TRADE NEWS

U.S., India agree to end export subsidies row

BY BRIJ KHINDARIA IN GENEVA

THE U.S. has settled a long-standing trade dispute with India by clearing the way for entry by more developing countries into a new code regulating the use of export subsidies and punitive countervailing duties.

Both the U.S. and India informed the Geneva-based General Agreement on Tariffs and Trade (Gatt) on Friday that the dispute has been "satisfactorily resolved." The U.S. has said it will now recognise Indian membership of the Gatt's code on subsidies and countervailing duties.

That recognition means India can subsidise its exports to the U.S. under certain specific circumstances without fearing the automatic imposition of punitive countervailing import duties to compensate for the size of the export subsidy.

The U.S. has also tied itself down to the code's terms in its relationship with India. The main benefit to India of this commitment is that the U.S. can no longer impose countervailing duties without first giving detailed proof to a Gatt committee that subsidised imports from India directly injure the interests of U.S. producers.

The dispute with India erupted last year as a result of India signing the subsidies and countervailing duties code reached at the Tokyo Round trade negotiations in December, 1979. The U.S., which also belongs to the code, refused to apply its provisions to India arguing that the Indians would first have to pledge to end all export subsidies as quickly as possible.

India argued that no such pledge was required under the code's terms because India was a developing nation.

Negotiations in Geneva earlier this month resulted in a form of words that allowed India and the U.S. to save face in light of a U.S. Congress rule that the Administration cannot offer the code's benefits to any country, including Third World nations, without such a pledge.

Several developing countries, including almost all Asian nations, who stayed out of the code awaiting settlement between India and the U.S., may now sign it in coming months.

Rees calls for MFA renewal

BY RHYS DAVID

A FIRMLY BASED new multi-fibre arrangement (MFA) is needed if pressures to abandon the world's open trading system are to be resisted, Mr Peter Rees, UK Trade Minister, warned in Bangkok at the weekend.

Mr Rees, speaking on an official visit to Thailand, stressed that the present MFA, although a protectionist device, had helped to avert demands from the industry in the UK and the the EEC for more drastic action to limit imports. It would be disastrous if there was a failure to agree in the talks which adjourned on Friday and are to resume in November. A new agreement is as vital to the developing country producers as to those in Europe and the U.S., he said.

"We are faced with a classic challenge of finding a formula which strikes a fair balance between all our needs, recognising that we are at different stages of development and facing very different problems. It has to be workable and it has to meet the economic and political preoccupations of all parties," he said.

Mr Rees rejected the criticism that, while developing countries had made sacrifices under the present MFA, textile manufacturers in the developed world had failed to use the breathing space provided to adjust.

"For many people in Britain the reality at the moment is long-term unemployment in the traditional centres of the textile and clothing industry. Last year alone there were 117,000 less jobs in textiles and clothing in the UK.

SHIPPING REPORT

Grain business improves patchily

BY ANDREW FISHER, SHIPPING CORRESPONDENT

GRAIN business showed patchy improvement last week, while the tanker market remained "absolutely abysmal," in the words of one broker. Commodity analysts warned, however, that hopes of rising U.S. grain sales to the Soviet Union could be partly thwarted by inadequate ports at the unloading end.

Last year, said Landell Mills Commodities Studies, the Soviet Union imported some 34.5m tonnes of grain and there was severe congestion in its chief grain harbours. Forecasts of higher imports over the coming year indicate the problem will become much worse.

None of the main inlets for grain in the Black Sea area has had a facelift for some years, noted Landell Mills in its latest bulletin. New facilities are planned at Novorossisk, but there are draft restrictions, and weather conditions are felt to be unfavourable.

Odessa has restrictions on size, but has better discharging facilities. In the Baltic, Leningrad is the only port that can take ships of 30,000 deadweight tons. Here, however, winter ice is severe. Some imports could come through Riga, and Nakhodka on the Pacific, although the latter is poorly equipped.

Last week saw increased grain chartering in the Atlantic, with rates slightly higher from the U.S. Gulf.

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Plessey in £30m tank radio deal

By Our World Trade Staff

PLESSEY AVIONICS and Communications has won a £30m contract to supply several thousand PVS-1410 VHF tank radios to a Middle East customer.

Plessey declined to name the client country because of the deal's sensitivity, but it is understood to be either Egypt, Jordan or Syria, each of which has among the largest numbers of tanks in their defence establishment in the region.

Plessey said the contract would run for 44 months.

● Sim-Chem, a member of the Simon Engineering group, and ICI have received letters of intent for contracts worth £8m for a 55,000 tonnes per year low-density polyethylene plant from the Azzawiya Oil Refining Company of Libya. The two British companies will supply licensing and know-how, design, engineering, procurement services and technical and advisory personnel during the construction and commissioning of the plant, to be built on the Ras Lanuf complex on the Mediterranean coast.

● Polysins, a British unit of Krupp-Polysius AG, of Germany, has received a DM 21m (£5m) order to double the capacity of a cement plant in Thailand. The order, from Siam City Cement of Bangkok, calls for expansion of the plant's capacity to 3,500 tons a day from 1,700.

● Steetley Engineering has won £3m in contracts in Nigeria for the supply of two brick plants. The plants will be built in Bendel State for POCO Minerals and Epic Foundries, both private-sector concerns.

Uhde to build plant in Burma

By Chit Tun in Rangoon

UHDE Gmbh of West Germany has won a £56m contract from the Burmese Government to build a 600-ton-a-day urea fertiliser plant. The plant, to be completed in 1984, is to be built at Prome, a town 200 miles north from Rangoon. The contract for the plant was signed recently between Petrochemical Industries Corporation, the state-owned Burmese enterprise, and Uhde.

UK HOUSING JOINT VENTURE

How to build a business in Mexico

BY WILLIAM CHISLETT IN MEXICO CITY

"IT'S JUST like Lego bricks. We can build four homes in a day."

British businessman Gordon Isherwood was proudly trumpeting the success of his prefabricated housing joint venture in Mexico where the booming construction market is a far cry from the UK's depressed scene.

Mexico, with a population of 70m, is the UK's largest export market in Latin America, and suffers from an enormous housing shortage. Millions of Mexicans live in straw huts or makeshift dwellings in urban slums. The country's oil wealth has sparked off a tremendous ambitious drive to build some 2m homes in the next three years.

With all the aplomb of a waterseller in the desert, Mr Isherwood feels that the joint venture company, European Construcciones, the first of its kind in Mexico, is on a winning wicket as it has got in on the ground floor and offers a quick solution to an appalling problem.

The company has prospective orders worth more than £30m with £4m already committed to build middle income homes in Villahermosa, capital of the oil-rich state of Tabasco.

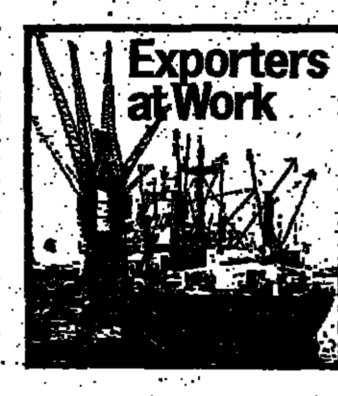
European's factory in Villahermosa came on stream this month. It is a joint venture between leading British building concerns represented by the Manchester-based company Elcon and Mexican construction interests.

Apart from Mr Isherwood, the British participation includes Mr Jack Lloyd, chairman of Wards of Wolverhampton, and Mr Bill Fishwick, chairman of Albert Staffords, builders' merchants in Manchester. They formed Elcon to market building systems around the world.

Three other British companies will be supplying European with ancillary components and they too are in the process of establishing joint ventures in Mexico.

The companies are FEB, which makes concrete additives and building chemicals, Egatube, part of the MK group which manufactures electrical components, and Heywood Williams, manufacturers of aluminium windows.

The start up of the factory in Villahermosa and the speed with which the order books are being filled is something of a personal victory for Mr Isherwood, Elcon's representative in Mexico.



Another prefabricated housing factory almost got off the ground in Chihuahua, in northern Mexico, in 1979, but the Mexican partner could not come through with the necessary cash on time and the project folded.

It is an incident which Mr Isherwood, who has many years business experience in the Middle East and Africa, prefers not to talk about.

The whole idea was revamped, and it has been a challenging task for Mr Isherwood, who once managed to draw up a contract and receive a financial commitment for a housing deal in Saudi Arabia in less than a day.

The beauty of the system is that the Villahermosa factory can be easily moved or separate factories built. On the strength of the orders there are plans to operate prefabricated housing factories in other parts of Mexico.

Mr Isherwood estimates that the exports of equipment so far have been worth some £1m and another £500,000 is scheduled to be shipped before Christmas.

The building system is simple and can be used for houses, schools, clinics and apartment blocks—all of which Mexico badly needs.

The factory makes L-shaped concrete panels, staircases, floors, [illegible] which are [illegible] together on site like Lego bricks.

Elcon has shipped seven British engineers who are closely supervising the Mexican construction gang in the swelter. Tabasco heat. Mexico appreciates the transfer of technology.

With some justification, Mr Isherwood believes that the "sky is the limit" in Mexico.

Milan company to supply acrylic fibre plant

BY JAMES BUXTON IN ROME

SNIA VISCOCA, the Italian textile concern, has won a $45m (£24.5m) contract to supply and commission an acrylic fibres plant in Mexico. The Milan-based concern will build the plant for Somex, the state holding company, at the port of Altamira.

The plant, which will meet the needs of the fast-expanding Mexican textile industry, will have an initial capacity of 20m tonnes of fibre a year and can be expanded to 30m tonnes.

Snia Viscosa has for some years had an important position in the Mexican economy through its supply of equipment and knowhow for producing cellulose and viscose.

● Snamprogetti, the engineering company of the ENI Group, has been awarded a turn-key contract for the engineering and construction of a linear alkylbenzenes plant in Egypt. The $70m contract was awarded to Snamprogetti by the NASR Petroleum Company, part of the Egyption state holding company ECPC.

The plant, which will have a capacity of 40,000 tons per year, will be constructed in the existing Amerya Refinery on the outskirts of Alexandria.

Snamprogetti will undertake the detailed engineering, procurement, construction and commissioning of the plant, which is scheduled for completion in 30 months. The linear alkylbenzenes will be mainly used for the production of biodegradable detergents and utilise, as a feedstock, kerosene produced in the refinery.

Tokyo reactor plan

BY RICHARD HANSON IN TOKYO

TOKYO ELECTRIC Power Company is reportedly interested in introducing pressurised water reactor (PWR) nuclear power plants made by Kraftewerk Union (KWU) of West Germany.

The company, Japan's largest power company and the world's largest operator of boiling water reactor (BWR) type reactors, declined to comment. Nihon Keizai Shimbun, Japan's leading business daily, said that a preparatory study will be made by three Japanese electrical equipment makers on the feasibility of the idea.

The companies, Hitachi, Toshiba and Fuji Electric also declined to comment.

According to the report, Tokyo Electric is interested in KWU because it has access to PWR and BWR technology, through its parent companies, AEG Telefunken and Siemens.

World Economic Indicators

RETAIL PRICES (1975=100)

	Aug. '81	July '81	June '81	Aug. '80	% change over previous year
UK	222.1	220.4	219.4	199.2	11.5
Japan	143.6	144.4	144.8	137.9	4.1
	July '81	June '81	May '81	July '80	
U.S.	170.2	168.3	166.8	153.7	10.7
France	187.3	184.0	182.2	165.2	13.4
W. Germany	129.7	129.2	128.6	122.6	5.8
Italy	255.8	253.8	252.0	213.5	19.8
Netherlands	144.6	143.6	143.4	135.4	6.8
Belgium	146.9	144.6	143.8	136.3	7.8

Source (except Japan): Eurostat

FT Grocery Prices Index rises after 2 month fall

BY OUR CONSUMER AFFAIRS CORRESPONDENT

THE Financial Times Grocery Prices Index rose slightly in September following a decline in the index in the previous two months.

The September index stood at 136.60 compared with 135.60 in August. This now puts the index on a par with the July level.

The fall in the index in the previous two months had been due mainly to seasonally lower prices for fresh fruit and vegetables. But this trend has now ended and fresh fruit and vegetables were slightly more expensive this month.

But the main reason for the index increase was a gradual rise in cost in most sectors included in the shopping basket. The largest absolute increase in costs was in the meat sector, which rose in price from £563.96 last month to £578.06 in September.

The index can be regarded only as a guide to trends in grocery prices and is not meant as an absolute indicator of price levels. These can vary according to shop location and type.

The index is based on data collected in 25 grocery stores by FT shoppers who monitor a list of over 100 items each month in the same shops. The shops chosen range from village grocers to large superstores.

The problems facing the food industry are spelt out in the latest economic review from the Institute of Grocery Distribution. This points out that volume of sales by food retailers this year has fallen more than sales volumes of all other retailers.

In July, it points out, sales were particularly low and in the three months from May to July sales were 2.3 per cent lower than in the previous three months.

The value of food retailers' sales was 7.8 per cent higher in June 1981 than a year previously, and 7.1 per cent higher in July than a year before. This compares with food inflation rates of 8.2 per cent and 8.6 per cent respectively.

Grocery prices are likely to continue to climb slowly throughout the autumn and winter months as fresh produce supplies become scarcer.

But the major supermarket chains are expected to continue with promotional efforts to win sales from each other.

The Asda superstores chain, for example, has just announced a new marketing campaign—its first marketing initiative since January 1980.

"Our 1980 campaign brought us new shoppers and record profits," points out Mr John Fletcher, managing director.

"But there is no single magic solution to increasing market share."

The FT Grocery Prices Index is copyright and may not be reproduced or used in any way without consent. All inquiries should be made to Lucinda Wetherall at the Financial Times.

FINANCIAL TIMES SHOPPING BASKET SEPTEMBER, 1981

	September £	August £
Dairy produce	687.53	684.75
Sugar, tea, coffee and soft drinks	209.72	210.09
Bread, flour and cereals	317.50	316.74
Preserves and dry groceries	113.50	114.26
Sauces and pickles	54.52	53.92
Canned foods	196.76	195.90
Frozen foods	243.65	240.90
Meat, bacon, etc. (fresh)	578.06	563.96
Fruit and vegetables	261.01	254.73
Non-foods	242.10	242.77
Total	2,904.35	2,881.02

1980: January 120.47; February 122.32; March 124.18; April 125.94; May 128.79; June 128.53; July 129.04; August 128.41; September 127.41; October 126.84; November 127.77; December 129.38.

1981: January 130.94; February 131.75; March 132.75; April 134.93; May 134.30; June 137.37; July 136.62; August 135.50; September 136.60.

Inquiry into 1968 burial of waste

By Sue Cameron, Chemicals Correspondent

A PUBLIC inquiry into the burial of contaminated chemical waste by the Coalite group 13 years ago is due to open in Matlock, Derbyshire, tomorrow.

The inquiry is likely to arouse much public emotion for the chemical was 2-4-5 trichlorophenol, an intermediate used in making the weedkiller 2-4-5 T. And 2-4-5 T has become notorious—rightly or wrongly — because of the potential dangers it may offer to those who come into contact with it.

Coalite buried this particular consignment in 1968 after an explosion at its Bolsover site. It was this accident that caused the contamination.

Coalite believed—and still believes—that it took adequate safety precautions when it interred the remains some 100 ft deep where they remained eight years before anyone questioned the matter.

In 1976, however, the Seveso disaster in Italy brought dioxin, the poison contained in minute quantities in 2-4-5 T to the public mind.

Morton parish council asked Derbyshire county council to state where the waste was buried. It also asked if the waste were safe or whether steps were being taken to make it safe.

The county's scientific officer assured the parish there was no danger while the county council refused to disclose the exact location. Coalite had not been legally required to provide the information in 1968, although it had subsequently told the council — in confidence. It was felt the information could give rise to needless panic.

Last year, however, Morton parish council repeated its demands for information and this year, following a swing to Labour in the local elections, it was decided to hold a public inquiry.

Coalite will not be represented at the inquiry. The company, which made a pre-tax profit of £22m in the year ending March 31 this year, said at the weekend that it had already given all available information and felt there was no purpose in raking over the facts again.

Derbyshire council said the inquiry's purpose was to establish the facts, including how much was known about the dangers of dioxin in 1968.

Dioxin can cause skin diseases similar to acne and, it is alleged, birth defects in children. However, there appears to be no evidence of people having suffered ill-health from the Coalite waste in Derbyshire.

BASE LENDING RATES

A.B.N. Bank	14 %
Allied Irish Bank	14 %
American Express Bk.	14 %
Amro Bank	14 %
Henry Ansbacher	14 %
■ Arbuthnot Latham	14 %
Associates Cap. Corp.	14 %
Banco de Bilbao	14 %
BCCI	14 %
Bank of Cyprus	14 %
Bank of N.S.W.	14 %
Banque Belge Ltd.	14 %
Banque du Rhone et de la Tamise S.A.	14½%
Barclays Bank	14 %
Beneficial Trust Ltd.	15 %
Bremar Holdings Ltd.	15 %
Bristol & West Invests.	15 %
Brit. Bank of Mid. East	14 %
■ Brown Shipley	14½%
Canada Perm't Trust	14 %
Cayzer Ltd.	14 %
Cedar Holdings	14 %
■ Charterhouse Japhet	14 %
Choulartons	14 %
Citibank Savings	†13 %
Clydesdale Bank	14 %
C. E. Coates	15 %
Consolidated Credits	14 %
Co-operative Bank	*14 %
Corinthian Secs.	14 %
The Cyprus Popular Bk.	14 %
Duncan Lawrie	14 %
Eagil Trust	14 %
E. T. Trust Limited	12 %
First Nat. Fin. Corp.	15 %
First Nat. Secs. Ltd.	15 %
Robert Fraser	14 %
Antony Gibbs	14 %
Grindlays Bank	‡14 %
■ Guinness Mahon	14 %
■ Hambros Bank	14 %
Heritable & Gen. Trust	14 %
■ Hill Samuel	§14 %
C. Hoare & Co.	†14 %
Hongkong & Shanghai	14 %
Knowsley & Co. Ltd.	14½%
Langris Trust Ltd.	14 %
Lloyds Bank	14 %
Mallinhall Limited	14 %
Edward Manson & Co.	15 %
Midland Bank	14 %
■ Samuel Montagu	14 %
■ Morgan Grenfell	14 %
National Westminster	14 %
Norwich General Trust	14 %
P. S. Refson & Co.	14 %
Slavenburg's Bank	14 %
E. S. Schwab	14 %
Standard Chartered	‖14 %
Trade Dev. Bank	14 %
Trustee Savings Bank	14 %
TCB Ltd.	14 %
United Bank of Kuwait	14 %
Whiteaway Laidlaw	14½%
Williams & Glyn's	14 %
Wintrust Secs. Ltd.	14 %
Yorkshire Bank	14 %

■ Members of the Accepting Houses Committee.
* 7-day deposits 11.5%, 1-month 11.75%. Short term £8,000/12 month 14.35%.
† 7-day deposits on sums of £10,000 and under 11½%, up to £50,000 12%, and over £50,000 12½%.
‡ Call deposits £1,000 and over 11.5%.
§ Demand deposits 11½%.
‖ 21-day deposits over £1,000 12½%.
¶ Mortgage base rate.

Government asked to tackle a bread and butter issue

Sales of brown bread are booming. But consumers may be confused by the labels. **David Churchill** reports.

MOVES TO ban misleading descriptions of certain types of brown bread are being considered by the Government at a time when brown bread sales in Britain are booming.

The Government is expected to make a decision early in the new year on two reports by official food advisory committees calling for the term "wheatmeal" bread to be banned.

In addition, it is proposed that more information on the dietary fibre content of brown bread, and the extraction rate of the flour used, should be included on bread labels.

This advice to the Government comes from the Food Standards Committee and the Committee on Medical Aspects of Food Policy. The proposals have already faced some criticism from sections of the bread industry.

"Wheatmeal" bread is not made in the same way as "wholemeal" bread, although consumers might be confused into thinking it is. Wholemeal bread uses wholemeal flour and contains 100 per cent of natural wheat grain.

A wheatmeal loaf can be made from white flour to which colour and bran are added to give it the appearance and flavour of wholemeal bread.

The wheatmeal process gives a drier taste and flavour which many consumers prefer to the open texture and nutty taste of wholemeal bread.

However, the food committees feel that consumers may be misled by the implication that wheatmeal is made in the same way as wholemeal.

This concern with brown bread reflects the rapid rise in sales, especially for wrapped brown bread, over the past few years. Demand for white bread has continued to decline.

In 1975 consumption of brown bread was 3.3 ounces per person per week. By 1980, that figure had risen 5.56 ounces. White bread consumption in 1975 was 27.68 ounces per person per week and by 1980 this had fallen to 21.87 ounces.

The latest data from the national food survey shows this trend has been maintained in 1981. In the first quarter of this year, brown bread consumption rose to 5.71 ounces per person per week from 5.3 ounces in the first quarter last year.

In contrast, white bread consumption has fallen from 21.97 ounces in the first quarter of last year to 21.17 ounces in the first quarter of this year.

Market research data from Audits of Great Britain also shows that more households are regularly buying brown bread.

Over the past three years, the proportion of households buying brown bread has risen from 40 to 47 per cent. Although white bread is still the most popular, bought by 53 per cent of all households, a further 35 per cent buy both brown and white. Some 12 per cent buy only brown bread, according to the research.

Surprisingly, most of this growth has come from younger housewives, households with no children, and those in the socio-economic groups C1, C2 and D. This suggests that brown bread is no longer simply regarded as a "cranky" health food, bought mainly by middle-class housewives.

Mr Bryan Kearsley, marketing manager of British Bakeries, says that "people have come to realise that brown bread is one of the easiest ways of ensuring a sufficient intake of dietary fibre and, moreover, it is nice to eat." He points out that as more people eat brown bread, "so consumers have been willing to experiment and have developed a better understanding of the various types of brown bread available.

British Bakeries, a subsidiary of Ranks Hovis McDougall, has itself been partly responsible for the brown bread boom over the past year. A year ago it launched its Windmill brand of wrapped brown breads—claimed to be the first new national brand of bread for 20 years—and now claims to have become the market leader.

The irony of Windmill's success is that RHM, its parent company, is still very much committed to producing a high volume of wrapped white bread fo rthe mass market. But with the trend towards brown bread, RHM felt it had to hedge its bets.

Windmill's marketing strategy was based on the concept that there was a considerable middle-ground of brown bread sales which was untapped by other producers. At one end of the market were specialist brown breads with distinctive tastes, such as Hovis, Vitbe and Allinson, while at the other were economy brown breads which where little more than brown versions of popular white, sliced breads.

Windmill subsequently launched a range of wrapped brown breads, ranging from wholemeal to granary loaves, and backed it with a £1.5m advertising campaign. Now Windmill claims to have an 18 per cent market share, marginally ahead of the established leaders Hovis and Vitbe. However, as with most market share figures for consumer products, there are different interpretations of who is market leader in particular markets.

Yet there seems little doubt that wrapped brown bread sales, which at present account for about 20 per cent by volume of all wrapped bread sales, will increase in popularity over the next few years.

British Bakeries estimates the market penetration will have grown to 30 per cent by 1985, making the market worth £300m at retail prices.

CB legislation date may be set next week

BY ELAINE WILLIAMS

THE LONG-AWAITED date for the introduction of Citizen's Band radio is expected to be announced by the Government next week.

Manufacturers believe CB sets will go on sale legally in the UK on November 2.

Since the end of June when Mr William Whitelaw, Home Secretary, outlined the final form of the UK system, British companies have been scrambling to arrange suitable production levels for CB equipment to meet the expected demand.

In the first year of the service, companies expect to sell at least 1m sets, although saturation of the market may be reached with 6m sets—a figure forecast for five years' time.

More than 20 companies are likely to market CB sets in the UK, including Binatone, Radio-mobile, Amstrad, Adam Imports, Fidelity Radio and Shadow Communications. Many companies have looked to Japanese and Far Eastern radio manufacturers to produce the equipment in time for legislation of the service.

High Street stores and mail order companies, including F. W. Woolworth, Rumbelows, Argos, Comet and Rediffusion, have also agreed to sell sets.

Britain is one of the last countries in Europe to set up its own CB radio system. The present system is incompatible with European versions, which operate on a frequency of 27MH FM (frequency modulated).

It has taken the Government more than two years to set a firm date for the start of a British system. As a result, there are now more than 1m illegal users of CB radio, based on the U.S. system, who face prosecution and confiscation of equipment.

There are still rumblings of discontent among pressure groups who have been lobbying for introduction of the presently illegal 27MH AM (amplitude modulated) system and for the British system to be brought in line with European counterparts.

The lobbyists also want an amnesty of at least a year for illegal users so they can buy the new legal sets.

Scots MP urges fishing debate

A SCOTS MP has appealed for a full debate in the Commons to discuss Scotland's fishing industry and to avoid the "incompetence of the Tory Fisheries Ministers."

The call comes from Mr Martin O'Neill, Labour MP for Clackmannan and East Stirling and Opposition Spokesman for Agriculture and Fisheries in Scotland.

He said: "The chaos which the incompetence of the Tories Fisheries Ministers caused in July must not be repeated."

Drax waste helps grow tomatoes

Martin Dickson looks at a project to aid horticulture from nuclear power stations

ONE OF THE MOST unusual hybrid enterprises in horticulture is to be found flourishing beneath the giant cooling towers of Yorkshire's Drax power station.

Exel Produce is a unique joint venture between Express Dairy Foods and the Central Electricity Generating Board.

It grows about 2,000 tonnes of tomatoes a year under 20 acres of glass just over the boundary wall from Drax, a modern coal-fired station. The station's waste warm water is used to heat the greenhouse.

Power station waste water has been used for several years to farm fish and eels, but this is the first time it has been tried for torticulture on a commercial scale.

Several other stations may instal hothouses, for at a time when the glasshouse industry complains bitterly about high oil prices and the threat from Dutch growers with smaller energy costs, Exel's fuel bills are comparatively low.

"This is the most challenging, exciting venture of its kind in the UK," said Mr Deryck Ryall, the nursery's manager. "The glasshouse industry, with its high reliance on expensive fossil fuels, is going through a very dodgy period. This is one solution."

Power stations convert only about a third of the heat they create into electricity. The rest leaves the plant as warm air or cooling water.

The cooling water, used to convert the steam driving the station's turbines back into water, is tepid and not useful for most purposes.

At Drax, up to 20m gallons a day of this is piped from station to glasshouse and through computer-controlled heat exchangers, which extract some warmth and blow hot air through the glasshouse, maintaining its temperature at just over 20 deg C.

Cultivation is equally sophisticated. The plants never come into contact with anything so crude as soil, but are held in sloping, polythene-lined metal troughs through which flows a chemical soup containing all they need to grow. This mixture is also computer-controlled.

The method is called nutrient film technique. This is its largest application in the world.

Exel reckons that to heat this acerage of glass by oil would cost £400,000 a year. Its fuel bills are about half that, even allowing for additional capital cost of equipment and use of electricity to drive pumps, heat-exchangers and other equipment.

The project grew out of experiments into energy conservation by CEGB scientists in the mid-1970s. Express Dairy approached the board with a proposal for a joint project and in early 1979 a pilot half-acre greenhouse at Drax was planted with tomatoes.

So successful was the first season's crop that plans for a second pilot year were put aside. The decision was made to set up Exel, 51 per cent owned by Express and 49 per cent CEGB, and go ahead with a £3m 20-acre project.

With a cropping season from March to December, Exel is near the end of its first year of commercial operations. It has fared reasonably well, though there have been teething problems in scaling up by a factor of 40.

Weather has not helped. Until the end of July light quality was 10 per cent less than average. As a result, the company will fall slightly short of its ambitious first-year target of 112 tonnes an acre.

Exel owns a 105-acre farm next to Drax. The idea is to expand by 20 acres at a time, using ploughed-back profits, until 80 acres are under glass. Tests are under way into the possibility of growing cucumbers, peppers and aubergines.

The project has aroused much interest in the horticulture industry. CEGB is discussing the possibility of a second venture, not involving Exel, at a power station in the south, where light conditions are better for growth.

For the CEGB, with its annual turnover of £5.5bn, any profits from horticulture will be small. But the projects can provide the board with a valuable public image spin-off as a keen energy-saver.

The same applies to fish farming at power stations, which began in the mid-1960s when the White Fish Authority set up a demonstration project at Scotland's Hunterston A nuclear plant. An added public relations gain here is presentation of nuclear power in a more benign light.

Two commercial farms set up at Hunterston and several English stations have attracted commercial or experimental schemes involving carp, trout, turbot, Dover sole, prawns and oysters.

The number of power stations suitable for vegetable or fish farming is limited. To qualify, plants must operate round the clock.

Tax plans for couples 'inadequate' says NCCL

GOVERNMENT proposals on taxation of married couples are inadequate and will not end fiscal discrimination against women, the National Council for Civil Liberties said yesterday.

Ms Jo Morris, NCCL women's rights officer, said: "The Government seems intent on making cosmetic changes, leaving the tax system with many of its discriminatory features.

"The inequities of the present system stem from the fact that the husband gets a married man's allowance by virtue of the fact that he is married and he is a man and that, for tax purposes, he owns his wife's income.

"Only when the individual, not the family, is the basic unit for the purposes of taxation can there be genuine equality."

In its response to the proposals, contained in a Green Paper last year, the NCCL is urging the Government to abolish the married man's allowance and redirect revenue to cash benefits directly related to family needs.

The council is also calling on the Government to reform the tax system, with the individual as the basic unit, as a matter of urgency.

"Until there is reform, a married man's take home pay will be £4.44p more than a married woman earning the same gross wage. Such inequality is a blatant contravention of the spirit of the Equal Pay Act," it said in a statement.

Alcohol warning

THREE-QUARTERS of a million people in Britain are alcoholics, but the actual number of people suffering from some drink-related problem could be as high as 10 per cent. Dr Dale Masi, director of an American government department researching alcohol dependency, told an international conference in London that alcoholism was now believed to be the third biggest killer in America and England, behind heart disease and cancer.

Raid rules win City's qualified approval

FINANCIAL TIMES REPORTER

THE COUNCIL for the Securities Industry's new rules governing stock market raids on a company's shares have met with qualified approval from leading City bankers and stockbrokers.

The changes have been introduced in order to prevent a bidder from taking control of a company by buying large blocks of its shares in the market before the defending company has had time to respond.

Recent examples include Northern Engineering's purchase of Amalgamated Power, the bid for Guthrie Corporation by Far Eastern interests, and BTR's raid on Serck, the engineering group, last week.

It was recognised in the City that public concern about the growing frequency of such share raids made it inevitable that some new limits would be placed on a bidder's freedom of action.

Although some brokers are concerned about the growing number of restrictions being placed on the stock market by various voluntary codes of practice, most agree that the council has not gone too far in its moves to slow down the rate at which a bidder is able to acquire a controlling position.

In its statement, the council—which is the City's main self-regulatory agency—said many important matters had to be considered when the control of a company was changing hands, "*not least the interests of employees*."

It went on: "The council has referred the various issues involved to a committee and in the meantime, as an urgent matter, is bringing within the provisions of the Rules Governing Substantial Acquisitions of Shares those who make a take-over bid or may incur an obligation to make such a bid.

"Anyone who has announced a take-over bid or is endeavouring to secure control by acquisitions will not be allowed for seven days to acquire voting shares carrying 5 per cent or more of the voting rights in a company, from more than a single shareholder, if his existing holding, together with his acquisition would give voting rights of 15 per cent or more."

The council has also decided to extend the rules so that an option is to be treated as an acquisition for the purposes of the rules.

The statement concluded: "A feature of recent market operations has been an announcement by the offeror that he will not subsequently increase his offer price. Such a statement may lead shareholders to sell without waiting to hear the Board's response. The council has decided that as part of the interim measures, an offeror shall not be permitted, prior to the first closing date of his offer, to announce that his offer price *will not be increased*."

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Reshape water authority, CBI urges Minister

FINANCIAL TIMES REPORTER

THE WATER authorities have failed to win the public's confidence and the regional boards should be reshaped, the Confederation of British Industry has told Mr Tom King, Local Government and Environmental Services Minister.

Mr Bryan Rigby, CBI deputy director general, called for a slimming down of management. Boards which now have up to 70 members should be smaller, and managerial in character, with executive and non-executive members, he said.

A proposal by the Monopolies and Mergers Commission to reshape the boards along managerial lines, with no more than 12 members, has been strongly supported by the CBI.

At the time of the last reorganisation of the water services in 1972, the CBI recommended smaller, managerial boards, although the Government then opted for larger boards with representational members.

In a letter to the Minister, Mr Rigby also said that the National Water Council, which was not referred to in the Monopolies Commission report, would need to have its function and structure reviewed if the regional water authorities were to be reshaped.

The CBI in Wales has simultaneously called on the Welsh Secretary, Mr Nicholas Edwards, to reorganise the Welsh Water Authority along similar lines.

Banking salaries doubled

By Michael Dixon

TOTAL SALARIES paid to City of London banking staff have doubled during the past five years, according to a survey by the Jonathan Wren recruitment agency.

The survey covered 45 banks—nine American, 12 owned in other foreign countries, seven consortia, nine merchant and three discount houses, four investment and one clearing bank—which the agency says is a representative cross-section of the London banking community.

Since January 1977, salaries—including cost-of-living and merit awards—were found to have risen by just more than 100 per cent. This compares with a rise of about 75 per cent in the Retail Price Index.

Stansted prepares for marathon airport inquiry

BRITAIN'S most expensive, complex and potentially longest public inquiry starts tomorrow—into the British Airports Authority plan to urn Stansted in rural Essex into London's third international airport.

The inquiry, which will last an estimated nine months and cost at least £10m, will also consider an application to resurrect the Maplin airport plan on the Essex coast, and another to build a fifth terminal at Heathrow.

The man who will decide and make a recommendation is Mr Graham Eyre, QC, a Crown Court recorder for the past six years.

Opposition has built up in the Stansted area since late 1979 when the Government said it would encourage the airport's growth to cater for the expected leap in demand for air travel over the next two decades.

This is the second "attack" on the rural lifestyle of Stansted people. A public inquiry in 1966 turned down proposals to uprate their airport.

Many of the same people are members of the North-West Essex and East Herts. Preservation Society, an amalgam of 230 local anti-airport groups. The society has raised £140,000 to back its tooth-and-nail fight.

It is backed by Essex and Hertfordshire County Councils—and indirectly by British Airways, which does not want Stansted developed.

The society's secretary, Mrs Sue Forsyth, said yesterday: "We have a very strong case, and we think we can knock down every argument by the BAA. We shall be protesting as strongly as we can—but there is no point in disrupting the public inquiry as has happened at some road inquiries."

The inquiry inspector will first hear the BAA's case, the Maplin case put by the Town and Country Planning Association, and an application for planning permission for a new passenger terminal at Heathrow.

Anglo-French talks on Chunnel begin today

THE FIRST serious inter-Governmental talks on a Channel link between Britain and France for six years are to take place in Paris today.

British and French officials are beginning joint studies following the decision earlier this month by Mrs Thatcher and President Mitterrand of France to re-examine the project.

Eight plans will be discussed during the series of talks, ranging from the single-bore rail tunnel proposed by British and French railways to British Steel's scheme to carry both rail and road traffic.

Several meetings between officials in London and Paris are expected before the project gets to Ministerial level.

Until recently the French Government was less than enthusiastic about reviving the cross-Channel project which was abruptly ended by the Wilson Labour Government in 1975 after tunnelling had begun.

But the new French President has taken a positive stand, not least *because* it could provide substantial employment in depressed northern France.

Analysis of bank advances and acceptances

to UK residents by banks in the UK at August 19 1981; as Table 5 in the Bank of England Quarterly Bulletin.

£m

			TOTAL TO UK RESIDENTS: Total	of which in sterling	of which in foreign currencies	FINANCIAL: Total financial	of which in sterling	Hire-purchase finance houses	Property companies	Other financial
London clearing banks	1981	May 20	29,035	27,854	1,181	2,118	1,947	194	962	962
		Aug 19	32,179	31,078	1,101	2,368	2,173	233	1,046	1,089
Scottish clearing banks	1981	May 20	3,940	3,699	240	376	340	117	100	160
		Aug 19	4,261	3,984	277	426	376	135	105	136
Northern Ireland banks	1981	May 20	844	844	1	37	37	2	31	4
		Aug 19	878	878	—	37	37	2	31	5
All banks	1981	May 20	67,880	56,400	11,480	10,868	7,909	2,001	2,423	6,444
		Aug 19	72,691	59,885	12,805	11,818	8,291	2,021	2,558	7,239
of which in sterling	1981	May 20	56,400			7,909		1,941	2,173	3,795
		Aug 19	59,885			8,291		1,955	2,300	4,036
Changes: in sterling	1981	Feb/May	+1,337			+131		−89	+15	+204
		May/Aug	+3,485			+382		+14	+127	+241
in foreign currencies adjusted for exchange rate effects§	1981	Feb/May	+64			+48		−4	+23	+29
		May/Aug	−143			+179		−1	−23	+204

			MANUFACTURING: Total manufacturing	of which in sterling	Food, drink and tobacco	Chemicals and allied industries	Metal manufacture	Electrical engineering	Other engineering and metal goods	Shipbuilding †	Vehicles	Textiles, leather and clothing	Other manufacturing
London clearing banks	1981	May 20	7,307	6,877	896	706	403	575	1,714	457	363	653	1,541
		Aug 19	8,473	7,965	1,132	826	454	781	1,852	459	484	685	1,800
Scottish clearing banks	1981	May 20	791	754	167	74	41	40	120	131	16	74	129
		Aug 19	824	776	189	72	42	42	126	115	21	80	137
Northern Ireland banks‡	1981	May 20	118	118	31				38			19	30
		Aug 19	130	129	38				42			21	29
All banks	1981	May 20	17,624	14,411	2,860	2,937	929	1,420	3,188	691	1,123	1,138	3,337
		Aug 19	18,455	14,804	2,853	2,931	976	1,614	3,342	689	1,309	1,163	3,578
of which in sterling	1981	May 20	14,411		2,298	2,112	803	1,188	2,656	669	989	1,020	2,677
		Aug 19	14,804		2,279	2,023	816	1,338	2,676	664	1,134	1,037	2,837
Changes: in sterling	1981	Feb/May	−744		−102	+39	−80	−116	−284	+50	−239	+27	−38
		May/Aug	+393		−19	−89	+13	+150	+20	−5	+145	+17	+160
in foreign currencies adjusted for exchange rate effects§	1981	Feb/May	+87		−93	+82	−6	−7	+20	−7	+15	+12	+69
		May/Aug	+25		−58	−22	+18	+13	+68	—	+22	−18	−4
Advances only All banks	1981	May 20	15,361	12,195	2,393	2,508	727	1,213	2,950	683	885	1,016	2,988
		Aug 19	16,673	13,052	2,498	2,581	822	1,478	3,155	688	1,136	1,047	3,269

			OTHER PRODUCTION: Total other production	of which in sterling	Agriculture, forestry and fishing	Mining and quarrying	Construction	PERSONS: Total persons	of which in sterling	For house purchase	Other
London clearing banks	1981	May 20	4,285	4,242	2,466	252	1,567	7,173	7,168	2,293	4,880
		Aug 19	4,510	4,456	2,642	290	1,578	8,109	8,100	2,741	5,367
Scottish clearing banks	1981	May 20	886	814	654	90	142	724	721	218	505
		Aug 19	949	868	709	97	143	807	804	257	550
Northern Ireland banks	1981	May 20	244	244	187	5	52	188	188	48	139
		Aug 19	248	248	192	5	51	193	193	51	143
All banks	1981	May 20	7,772	6,795	3,452	1,846	2,475	10,379	10,336	3,216	7,163
		Aug 19	8,265	7,061	3,688	2,089	2,487	11,593	11,543	3,789	7,804
of which in sterling	1981	May 20	6,795		3,426	1,007	2,362	10,336		3,209	7,127
		Aug 19	7,061		3,660	1,038	2,363	11,543		3,783	7,761
Changes: in sterling	1981	Feb/May	+449		+245	+159	+45	+836		+311	+524
		May/Aug	+266		+234	+31	+1	+1,207		+574	+634
in foreign currencies adjusted for exchange rate effects§	1981	Feb/May	+46		−1	+40	+7	+6		+1	+5
		May/Aug	+97		−1	+101	−3	+1		−1	+2

			SERVICES: Total services	of which in sterling	Transport and communications	Public utilities and national government	Local government	Retail distribution	Other distribution	Professional, scientific and miscellaneous
London clearing banks	1981	May 20	8,152	7,621	677	300	66	1,800	1,440	3,869
		Aug 19	8,720	8,384	671	214	100	2,025	1,650	4,060
Scottish clearing banks	1981	May 20	1,163	1,070	145	56	97	189	148	527
		Aug 19	1,255	1,160	156	56	122	198	181	554
Northern Ireland banks‡	1981	May 20	257	257		20	8	97	39	93
		Aug 19	270	270		17	9	97	43	105
All banks	1981	May 20	21,236	16,949	2,422	1,285	1,856	2,884	4,760	8,029
		Aug 19	22,560	18,186	2,536	939	2,140	3,086	5,411	8,447
of which in sterling	1981	May 20	16,949		1,334	389	1,842	2,841	2,955	7,587
		Aug 19	18,186		1,285	606	2,124	3,033	3,205	7,933
Changes: in sterling	1981	Feb/May	+667		+23	+100	+165	+116	−130	+392
		May/Aug	+1,237		−49	+217	+282	+192	+250	+346
in foreign currencies adjusted for exchange rate effects§	1981	Feb/May	−123		+149	−350	—	+8	+24	+46
		May/Aug	−445		+23	−651	+1	+6	+162	+14

† Including lending under special schemes for domestic shipbuilding. ‡ The analysis provided by Northern Ireland banks differs slightly from other banks. Chemicals and allied industries are included indistinguishably in "Other manufacturing"; Metal manufacture, Electrical engineering, Shipbuilding and Vehicles in "Other engineering and metal goods"; and Transport and Communications in "Public utilities and national government." § The figures exclude as far as possible the effect of changes in exchange rates on the sterling value of advances in foreign currencies.

Fall in dollar forecast by Lloyds

BY ANATOLE KALETSKY

MOUNTING political pressures on the Reagan Administration will lead to a fall of several percentage points in U.S. interest rates by the end of the year, and by the end of 1982 the dollar will have fallen back to about DM 2.00 from its present level of over DM 2.30.

These are the main predictions of an article comparing the British and U.S. experiences of monetarism in today's Lloyds Bank Economic Bulletin.

The article, by Mr Christopher Johnson, Lloyds Bank's economic adviser, argues that the dollar, like the pound, has reached "unsustainable levels" as a result of the attempt to control inflation by means of monetary targets.

The currency appreciation in both the U.S. and the UK has had an effect on inflation which was "unintential, modest in its extent, and reversible." However, the rise of the dollar has made inflation worse in other major countries.

The other effects of monetary policy on inflation are equally indirect, according to Mr Johnson. Monetary targets have had little impact on pay bargaining and pay rises of about 10 per cent are to be expected in both countries this year and next. These would continue to fuel inflation unless they can be offset by substantial productivity increases, Mr Johnson wrote.

In another circular published today, it is predicted that UK interest rates will have to rise further in the near future to protect sterling. Stockbrokers James Capel consider "the first half of September bore all the hallmarks of the start of a traditional sterling crisis."

The course of UK interest rates is largely dependent on what happens to U.S. rates, and James Capel foresee "a renewed bounce back in American primes" in the fourth quarter despite a possible further easing in the very short term.

Additional reasons for concern about the future of sterling include the probable weakness of oil prices, the prospect of a troubled pay round following the Government's four per cent public sector pay limit and next month's publication of UK trade statistics, the first since the Civil Service dispute.

Farm survey shows greener pastures

BY JOHN EDWARDS, COMMODITIES EDITOR

A RISE of 26 per cent in average income and 15 per cent in gross margins, is reported in the 1980 ICI annual survey of farm incomes published today.

The survey, of 141 farms with an average holding of 315 hectares, shows gross margins in the 1980 crop year (from October 1979 to June 1981) increased from £482 to £555 per hectare.

However, ICI noted that although the survey covered most systems and conditions in England and Wales, the results were only as an indicator of trends because they tended to reflect the performance of the more efficient and progressive farmers.

The National Farmers Union said the income improvement followed a substantial fall in the same group of farms the previous year and was the second lowest jump in real terms in the past 10 years.

Income of all farm types rose except that of arable general cropping farms, which suffered decreased potato margins. This was due generally to improvements in technical performance together with most price increases and, more importantly, a less rapid rise in fixed costs. The biggest rise in margins came from upland meat farms.

Further good news for farmers is a reduction in prices of some agrochemicals and molasses. Ciba-Geigy Agrochemicals has cut prices of grass weed control chemicals, Dicurane, Prebane and Hytane, by 10 per cent.

Agrochemical producers and merchants have become increasingly worried in recent months by an influx especially from France of cut-price chemicals. The Ministry of Agriculture has warned importers they may be breaking safety regulations surrounding the sale and use of agrochemicals.

Manufacturers, who often sell the same brand of chemical at greatly different prices in Britain and on the Continent, are under great pressure to narrow the gap. Some, like Ciba-Geigy, have decided to act in a bid to reduce the import trade.

A cut of 20 per cent in the price of molasses to around £72 a tonne, effective from October 1, was announced by United Molasses. The company said the price cut has been brought about by a modest over-supply, an easing of freight rates and the forecast of a good sugar beet crop in West Europe this year.

However, the price reduction coincides with the entry of a third major UK supplier of molasses, which is used as a supplement to animal feed for livestock. The new company, which plans to start operations next month, is a joint venture between BP Nutrition's subsidiary, Nordos Feed Materials, and the Dutch-owned Schuurmans and Van Ginneken (SVG). The privately owned Dutch group has already moved into Denmark and Portugal.

Until now the UK market has been dominated by United Molasses, subsidiary of the Tate and Lyle group operating world-wide and International Molasses, the UK subsidary of the U.S.-based National Molasses group, which entered the UK market in 1968.

Callaghan's plan for independent Ulster

BY BRENDAN KEENAN

FORMER LABOUR Prime Minister Mr James Callaghan, has expanded on his controversial Commons speech advocating a degree of independence for Northern Ireland. He told an Irish radio audience that Ulster politicians would not come together until Britain had made them face reality.

Mr Callaghan also said he thought the IRA had won the propaganda war over the hunger strike.

He said his plan for independence would be limited in a number of ways. There would have to be a Bill of Rights guaranteed by independent judges; social security and pension agreements would have to be honoured by Britain, and there would be economic support from both Britain and the Republic.

Those who wanted to retain British citizenship should be allowed to do so but the territory would cease to be part of the UK.

Mr Callaghan said his plan was not a movement towards a united Ireland. That was too far away to be a policy, even though the Labour Party had adopted it as an aspiration.

Mr Callaghan was also asked about the deputy leadership election and said it had done great damage.

Such elections should be by Labour MPs and ratified by conference. "To go through this every year would destroy the party," he said.

Dr Garrett FitzGerald, the Irish premier, has said there is nothing in the present Republic to make it attractive to northern Protestants.

He said Unionists could not be expected to join a state which, as late as 1979, had passed laws on contraception which were based on the ethos of one church.

Dr FitzGerald made it clear that he would not put his ideas for changing the Republic's constitution to make it more acceptable to Protestants unless he thought he had a reasonable chance of winning.

Dockers reject strike over closure

By Our Labour Staff

A VOTE by London dockers against strike action has raised the hopes of the Port of London Authority that it will be able to close the historic Royal Docks without a major battle.

A mass meeting of London dockers on Friday rejected by a large majority a recommendation by union officials for a strike throughout the port from October 19. The strike would have been in protest at the authority's planned closure of the Royal Victoria, Royal Albert and George V docks and transfer of their general cargo operations down-river to Tilbury.

Management believes that while this vote does not remove entirely the possibility of trouble over its plans, it will undermine any union moves to make it into a national issue. It is seen as an indication that the heart of the rank-and-file is not in a fight over the Royals, which have been losing well over £6m a year and have long been candidates for closure.

Redundancies

The PLA is seeking 1,000 more voluntary redundancies—600 of them among dockers—on top of 900 achieved so far this year. Some 700 of the new job losses will be the result of closing the Royals, and 300 stem from docker surpluses which existed beforehand.

The dockers will be able to take advantage of an extra £5,500 currently on offer nationally on the maximum £10,500 under the scheme of voluntary redundancies. There has been a sharp increase in applications for severance since the Royal's closure was announced 11 days ago.

The PLA hopes that this year will see the end of the massive severances, and that in future these will take place in hundreds rather than thousands. The number of registered dock workers in London has fallen from 23,000 to under 5,000 in the past 15 years or so.

The authority will cease booking ships for the Royals after the end of this month and will begin transferring workers to Tilbury in the first two weeks of October. It says the early indications show that customers are prepared to make the switch.

Confident Derek Robinson looks to Longbridge for support

Arthur Smith looks at Robinson's come-back attempt in a key vote for a newly-created union position

MR DEREK ROBINSON, committed Communist and once heralded as the most powerful shop steward in the land, at 55, may never work again. But he remains confident that the workforce at BL Cars' giant Longbridge plant, Birmingham, which spurned his appeal for help when he was dismissed as convener, will now vote for his return as a union official.

BL Cars under Michael—now Sir Michael Edwardes—caused a sensation in November 1979 when Mr Robinson was dismissed as convener for undermining the company's recovery plan. The decision, thought by many observers in the industry to be reckless, prompted a walkout at Longbridge.

But in the negotiating manoeuvres that followed, opposition collapsed and Sir Michael emerged with a total victory.

Mr Robinson, a commanding 6 ft figure and son of a Black Country chain maker, had been toppled from his pinnacle.

He joined the old Austin company as a toolmaker apprentice at 16 and spent 37 years rising through the ranks to become convener of the 20,000 workforce.

That position and his role as chairman of the unofficial shop stewards combine carried authority and influence throughout the 120,000 workers in the cars division.

Under a Labour government, dependent upon trade union support and committed to the expansion of Leyland and worker participation, Derek Robinson was a figure to be reckoned with.

Now "Red Robbo," as he was dubbed, spends his time preaching to union branches and activists up and down the country. He remains not only surprisingly philosophic about his downfall but retains his faith that "support will be forthcoming from the working people that will change the political face of Britain."

He appears confident of victory in the elections which close tomorrow for a newly created Amalgamated Union of Engineering Workers' position as divisional organiser for the area covering West Birmingham and Wolverhampton — a job that would take him back into Longbridge as a full-time official.

Ironically, his opponent is Mr Denis Duffy, a convener at the IMI Marston plant in Wolverhampton and brother of Mr Terry Duffy, the sitting president of the AUEW and the man in charge when accusations were flying about lack of support for Mr Robinson.

In theory, Mr Duffy as the candidate of the well-organised right-wing section of the union in a traditionally moderate area should romp ahead in a postal ballot. In practice, there are fears that Mr Robinson—a larger-than-life figure — might have struck a chord.

In his election address he talked of the "confrontation tactics of Michael Edwardes being copied throughout British industry."

Trade unions in the west Midlands have suffered closures and a rise in unemployment way above the national average and are now on the defensive. Mr Robinson's call to "reverse the present downward trend" could meet with a response.

Support is beginning to rally at Crofton Park, the scene of Longbridge mass meetings and where the workers on a cold February morning last year told Mr Robinson in no uncertain terms to "get on his bike."

At factory gate meetings AUEW members have turned out in their hundreds to hear their former convenor call for militant action.

The success of Sir Michael Edwardes in dismissing Mr Robinson had a symbolic significance. For the Communist convener to win Birmingham Division 16B could be equally significant.

3,000 GEC-Marconi jobs at risk

BY OUR LABOUR STAFF

MORE THAN 3,000 highly specialist jobs are threatened in GEC-Marconi because of a shift in the Government's military spending priorities. The Association of Scientific, Technical and Managerial Staffs has warned.

The union blames the increasing emphasis on nuclear weapons and the effect this has on conventional arms spending together with the absence of a public procurement policy with a sufficiently "manifest tendency" to support domestic industries.

At Marconi Radar Systems, the union says, some 2,000 jobs are at risk, largely because of the Government's decision to reduce the size and sophistication of the Royal Navy's surface fleet.

Six hundred redundancies were declared at Leicester this summer because two radar development contracts were cancelled, Astms says.

Up to 1,500 more jobs could be lost over two years from the end of 1981 because of cancellations which could follow a Ministry of Defence proposal to terminate the five-year project for GWS25 Sea Wolf Radar Trackers type 910.

These trackers would presumably be replaced by a new lightweight project to suit smaller vessels, the union says. It claims that job losses could be reduced by 300 if a Marconi system were chosen, but fears a Dutch system will be selected instead.

At Marconi Communication Systems some £4m-£5m in orders has been lost in the defence division because of cutbacks affecting navy contracts for ship-to-shore communications systems, Astms says. It fears the loss of 500 jobs at Chelmsford.

Other companies in the group such as Marconi Avionics would be affected and would suffer redundancies, because of the inter-connections between subsidiaries.

The union fears that Marconi will turn to international link-ups. "If profitable technology is damaged in Britain by current government approaches to political and economic questions, GEC will increasingly look overseas for co-operative ventures and alternative production centres," it says.

UK NEWS—LABOUR PARTY CONFERENCE

FACES IN THE NEWS: (from left) Mr John Silkin, Mr Michael Foot, Mr Denis Healey, Mr Tony Benn, Mr James Callaghan.

Left to maintain pursuit of Labour Party control

BY ELINOR GOODMAN, LOBBY CORRESPONDENT

MR TONY BENN and his supporters among Left-wing activists yesterday signalled their determination to carry on the fight for control of the Labour Party—whoever won the deputy leadership contest.

At a meeting of Mr Benn's supporters, organised by the Campaign for Labour Party Democracy, the group which was largely responsible for organising the far Left's previous conference triumphs, speakers made clear they were determined to press ahead with demands for more control over MPs.

Mr Benn made a brief appearance before a rapturous audience of his supporters hours before the vote was declared. He said the struggle to make MPs more accountable would have to go on until the people had the right to decide policy and to have their views put forward by the people they chose to represent them.

The organisers urged delegates not only to support the Left again in its bid to give the party's National Executive Committee the final say on the contents of the party manifesto but also to ensure that the question of electing a Labour Cabinet reached the agenda for future Labour conferences.

At the same time Mr Arthur Scargill, the Yorkshire miners' leader, to loud applause warned that if Mr Benn lost the leadership contest there would in his view be no question of not contesting the election again.

Speaking to more than 500 of Mr Benn's supporters, he said an abstention in the deputy leadership ballot was in reality a vote for "trying to operate capitalism better than the Tories."

He also turned on the media, accusing it of bias. He said the first thing the next Labour Government should do should be to take into common ownership the television, Press and other media "so as to ensure objectivity."

The meeting was attended mainly by younger delegates, of the kind who have so effectively campaigned for Mr Benn in local parties. It was an example of the disciplined, detailed approach of the Campaign for Labour Party Democracy which has enabled the Left to be so successful at recent party conferences.

Delegates were given detailed instructions on how to vote on several key issues, including the question of who should write the manifesto and the rule preventing the debate of the same issue more than once every three years.

The meeting also showed the growing antagonism on the far Left to some members of the National Executive Committee who were once considered their allies.

The CLPD organisers accused the NEC of failing in its obligation to issue instructions on the vexed question of whether constituencies should have to interview anybody other than the sitting Member when reselecting their MP.

The CLPD was yesterday selling copies of a booklet aimed at maximising the pressure local parties could put on MPs through the reselection procedure approved at last year's party conference.

The CLPD has produced an updated version of the booklet How to Select or Reselect Your MP.

THE INVECTIVE characterising the whole six months' campaign for the Labour Party deputy leadership reached a climax yesterday afternoon in Brighton in the hours immediately before the vote.

Each side heaped abuse on the other and made clear that, whoever won, the fighting in the party would continue.

Meanwhile in hotel lobbies—and even in the streets outside—delegates huddled together in groups as the two opposing groups made last-minute efforts to sway the few remaining floating voters.

Healey seeks secret ballots for members

BY IVOR OWEN

FUTURE ELECTIONS involving all members of the Labour Party must be conducted by secret ballot, Mr Denis Healey said in Brighton yesterday.

Before the result of the deputy leadership contest was known he told a crowded meeting, organised by the Solidarity movement, that a victory for Mr Tony Benn would be contrary to the genuine wishes of the majority of rank-and-file Labour supporters.

Bitter denunciations of Mr Benn were led by Mr Peter Shore, Shadow Chancellor, and Mr Roy Hattersley, Shadow Home Secretary, and wholeheartedly endorsed by Mr James Callaghan.

They preceded Mr Healey's passionate plea for an unceasing campaign to prevent the party's National Executive Committee remaining in the grip of the Left wing.

He said that in the five short months since the launching of Solidarity—aimed at stopping Mr Benn and preventing further defections to the Social Democrats—this movement had won massive backing from the party's traditional grass-roots.

"We have our moral victory already," Mr Healey said amid cheers. "We know that we represent the overwhelming majority of trade unionists and Labour Party members in our movement."

To further cheers he said: "If that majority is not reflected in the voting this evening it will be because small groups of bosses have shown contempt for the views of their own rank and file."

Mr Healey condemned the fact that the present voting procedure of major unions like the Transport and General Workers Union allowed Communists and members of other political parties to have a direct vote on issue vital to the future of the entire Labour Party.

He said: "On all issues of unique importance to our movement and our country every member of the Labour Party must have the right to vote. And every member must have the right to cast their votes in secret."

Mr Healey said the intimidation of loyal party members in the constituencies, and even in Parliament, was a "disgrace to the tradition of tolerance which is our movement's proudest boast."

Mr Healey began his speech by contrasting the enthusiastic atmosphere of the Solidarity meeting with the "cantankerous rancour" which characterised the proceedings of the Labour Party's National Executive Committee. He concluded by appealing to Labour Party members to remain loyal and not to defect to the Social Democrats.

Kitson urges delegates to keep firmly to the Left

BY IVOR OWEN

IN HIS opening address to the Labour conference at Brighton last night Mr Alex Kitson, party chairman, urged delegates to keep firmly on a Left-wing course.

He called for the reaffirmation of the commitment to unilateral disarmament, withdrawal from the EEC and the supremacy of the party conference in policy-making.

While Mr Denis Healey looked on impassively, he insisted conference should assert its authority.

"Firstly, and perhaps most importantly," he said, "we should state that it is conference and conference alone that decides the principle of policy and it is the Parliamentary Labour Party which then implements those principles. That would be a real unity—a unity of purpose and instrument."

Mr Kitson said the party had a right to expect that party policy laid down by conference should be put and put forcibly, from the front bench in the Commons.

He appealed to delegates not to aid and abet "the distortion by the media," the overselling of defeat or victory for a particular candidate in the deputy leadership election.

"The party would still be here this morning, he stressed. "We will still form the next Government after Thatcher."

Mr Kitson argued that the position of an individual would not alter the party's clear position on the major issues before the nation.

He said the policies agreed by the party were not dispensible.

'Samurai' banners greet the delegates

By John Hunt, Parliamentary Correspondent

DELEGATES ARRIVING at Brighton railway station for the start of the conference were greeted by groups of youngsters carrying long bamboo poles and looking rather like an army of medieval Samurai.

The purpose of these implements became apparent when the crowd paired off and used them to mount the usual angry protest banners.

It seemed a fitting start to a week which we have been assured will be historic.

The impression was borne out when Mr Joe Townsend, chairman of Brighton Labour Party, made what was described as a welcoming speech. This turned out to be an acrimonious attack on the party leadership. Previous Labour administrations, it seemed, had gravely disappointed the rank and file's expectations.

Then followed a rather apprehensive speech from Alex Kitson, chairman of the party and deputy general secretary of the Transport Workers' Union.

Unfortunately for Mr Kitson the message that came across was the opposite to what he intended. It was clear that the new SDP-Liberal alliance is scaring the wits out of party and trade union bigwigs.

Callaghan denounces Benn's 'solutions'

BY IVOR OWEN

A WAVE of disillusionment would sweep through Britain if Mr Tony Benn were ever to become Prime Minister, Mr James Callaghan warned at Brighton yesterday.

"He is advancing simplistic solutions to extremely difficult problems which he knows cannot succeed," the former Prime Minister said.

Mr Callaghan's denunciation of Mr Benn was in the wake of equally hard-hitting attacks by Mr Roy Hattersley and Mr Peter Shore.

Mr Hattersley, the Shadow Home Secretary, wound up his assault on Mr Benn by contending that he was not fit to participate in the leadership of the Labour movement.

Mr Shore, the Shadow Chancellor, stressed that two of Mr Benn's leading supporters in his bid for the deputy leadership were the Campaign for Labour Party Democracy and the militant Trotskyists—organisations which had displayed an overriding contempt for elected representatives whether at national or local level.

Mr Callaghan was greeted with a cry of "Save the Party, Jim" as he rose to speak. He hit out at Mr Benn for having accused his former Cabinet colleagues of treachery.

Mr Callaghan sighed audibly as he admitted his belief that if Mr Benn were to be elected he would "do what he says." The House of Lords would be abolished, Britain would be set on the path of unilateral nuclear disarmament and every Labour MP made the chattel of his constituency party executive.

Recalling a speech by Mr Benn at last year's Labour conference, Mr Callaghan said all this would be done in a period of three weeks. Even if it were, he said, there would still be 3m men and women out of work in Britain.

"It would be the biggest betrayal of hopes, and I fear the disillusion of those who are following him at the present time."

Mr Hattersley also took up Mr Benn's accusation that, once elected, Labour MPs had betrayed their obligations to the party.

He said: "Anyone who bases a campaign for the deputy leadership of the party on such an attempt to divide us and to reduce honest, hard-working representatives with such calumnies of fear and disloyalty is not fit to take part in the leadership of our movement."

Mr Hattersley emphasised that two things would be clear if Mr Benn triumphed over Mr Healey:

● No matter how the votes had been manipulated, Mr Benn was not the choice of the party's rank and file members;

● Labour's prospects of winning the next General Election would have been "cruelly impaired."

BUSINESSMAN'S DIARY

UK TRADE FAIRS AND EXHIBITIONS

Date	Title	Venue
Current	British International Footwear Fair (01-739 2071) (until Sept 30)	Olympia
Sept 29-Oct 2	British Philatelic Exhibition (083 482 433)	Wembley Conference Centre
Oct 6-9	Design Engineering Show and Conference (01-747 3131)	NEC, Birmingham
Oct 6-10	Park Lane Hotel Antiques Fair (01-353 9362)	Park Lane Hotel, W1
Oct 13-16	6th International Airport Construction and Equipment Exhibition (0727 63213)	Belle Vue, Manchester
Oct 14-15	Hardware Review Exhibition (01-684 4082)	Newcastle
Oct 14-16	Internepcon Conference and Exhibition (0483 38085)	Metropole Ex. Hall, Brighton
Oct 20-29	International Business Show (01-405 6233)	NEC, Birmingham
Oct 20-23	London Fashion Exhibition (01-385 1200)	Olympia
Oct 21	Motorfair (01-385 1200)	Earls Court
Oct 24-28	International Automotive Parts and Accessories Trade Show—AUTOPARTAC (0494 41548)	Cunard Intl. and West Centre Hotels
Oct 27-29	Computer Graphics Exhibition (09274 28211)	Bloomsbury Centre
Oct 27-19	Electronic Test and Measuring Instrumentation Exhibition—TESTMEX (0822 4671)	Wembley Conference Centre
Oct 28-Nov 8	Model Engineering and Hobbies Exhibition (0455 37173)	Bingley Hall, Birmingham

OVERSEAS TRADE FAIRS AND EXHIBITIONS

Date	Title	Venue
Current	International Trade Fair for Cleaning and Flooring CLEANEXPO (01-486 1951) (until Sept 30)	Malmo
Oct 2-11	First International Fair (021-705 6707)	Singapore
Oct 9-13	International Market for Videocommunications—VIDCOM (01-499 2317)	Cannes
Oct 12-17	International Maritime Exhibition—RIOMAR (0206 45121)	Rio de Janeiro
Oct 16-25	International Flower and Horticultural Show (01-540 1101)	Copenhagen
Oct 17-21	International Exhibition of Women's Ready-Made Clothing (01-439 3964)	Paris
Oct 19-23	International Water Exhibition and Conference (01-272 4287)	Bombay
Oct 20-23	International Security, Safety and Protection of Mankind and Property—EUROPROTECTION/EUROSECURITY (01-486 1951)	Paris
Oct 21-27	International Petroleum and Gas Exhibition (01-235 2423)	Moscow
Oct 27-31	Electrical Engineering Exhibition (01-540 1101)	Berlin
Oct 28-31	International Sports, Swimming Pools and Leisure Facilities Trade Fair (01-409 0956)	Cologne
Oct 30-Nov 10	Tokyo Motor Show	Tokyo
Oct 30-Nov 11	International and Gastronomic Fair (0271 812968)	Dijon
Nov 3-7	International Engineering Exhibition (01-681 7688)	Seoul
Nov 4-5	Resins and Pigments Exhibition (0737 68611)	Milan

BUSINESS AND MANAGEMENT CONFERENCES

Date	Title	Venue
Sept 28-29	MSS Computer and Business Consultancy: Computer appreciation for managers/users (Worthing 34755)	Worthing
Sept 28-29	AMR International: Advanced executive secretaries (01-262 2732)	Helsinki
Sept 29	Dun and Bradstreet: More effective collection technique for credit controllers and supervisors (01-247 4377)	Café Royal, W1
Sept 29-Oct 1	Thames Water: Disposal of Sludge to Sea (01-837 3300)	University College, London
Oct 1	British Franchise Association: International franchising and licensing (0753 653546)	Café Royal, W1
Oct 6	The Henley Centre for Forecasting: The new leisure markets for the 1980s (01-353 9961)	Cumberland Hotel, W1
Oct 8-9	Department of Energy: Fifth National Energy Management Conference—Energy Conservation—the key to competitiveness (01-211 3000)	Nat. Exbn. Cntr., Birmingham
Oct 8	Dun and Bradstreet: Understanding credit and collections—for all collection personnel (01-247 4377)	Piccadilly Hotel, Manchester
Oct 12-13	AMR International: Effective presentations (01-262 2732)	Westbury, W1
Oct 12-16	Lloyd's World of Shipping Conference (01-353 1000)	Hong Kong
Oct 13	IPS: Costs and prices—the outlook for 1982-83 (0990 23711)	Penta Hotel, SW
Oct 14	Oyez-IBC: Drafting commercial contracts—variations of standard forms and essential provisions (01-242 2481)	Scientific Society, W1
Oct 15	CBI: Motivating employees (01-379 7400)	Centre Point, WC1
Oct 15-17	World Sugar Journal: International Policy and Legislation on Sweeteners and Alcohol (0753 72137)	Florida
Oct 16	Systematics International/ICFC: Seminar for Business Executives (0223 62126)	Colchester
Oct 19	British Institute of Management: The Effective Manager (01-405 3456)	Guernsey
Oct 20-21	Frost and Sullivan: Motivating Computer Personnel (01-486 8377)	Copenhagen

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there has been no change in the details published.

TECHNOLOGY

EDITED BY ALAN CANE

Leyland Vehicles approves new suspension system

BY JOHN GRIFFITHS

LEYLAND VEHICLES has given its formal approval for the fitment of a rubber suspension system to its trucks. The system, developed by Rydewell Suspensions at a new factory in Corby, Northants, will be offered as an option which can be ordered through the Leyland dealer system on a range of four- and multi-wheeled models.

The Leyland endorsement is an important breakthrough for Rydewell. But there could be others. Ford is experimenting with the system on its new Cargo range, and negotiations are said to be well advanced with other manufacturers.

Meanwhile, licensing agreements have been concluded for its manufacture in Australia and the U.S.

At the heart of the suspension are inclined rubber-to-metal sandwich bolster springs. They work in conjunction with a variety of mounting configurations depending on the type of axle being suspended.

For example, a three-axle bogie applicable to trailers used in five- and six-axle tractor/trailer combinations rated at 40 and 44 tonnes uses longitudinal and transverse location of the axles by tie bars and a triangular torque arm above, and torque rods below, the axles. Telescopic dampers are fitted on all axles.

A single-axle system, rated for 6-15 tonnes capacity caters for both driven and trailing axles. The axle itself is carried on a pair of trailing arms on each side of the chassis with the rubber units at the ends of the trailing arms and positive location provided by a central torque rod (see diagram). The system can cope with gross weights of between five and 55 tonnes.

The advantages claimed for the system over conventional spring and air suspensions are that it offers a soft ride in unladen conditions, when most shock damage is done to trucks. It stiffens progressively under compression to match whatever loading is applied; it is non-reactive—in other words it has no tendency to make the truck bounce, when a driver brakes heavily on an uneven surface. Because the springing is angled from each side towards the centre of the truck, there is a progressive resistance to roll under cornering.

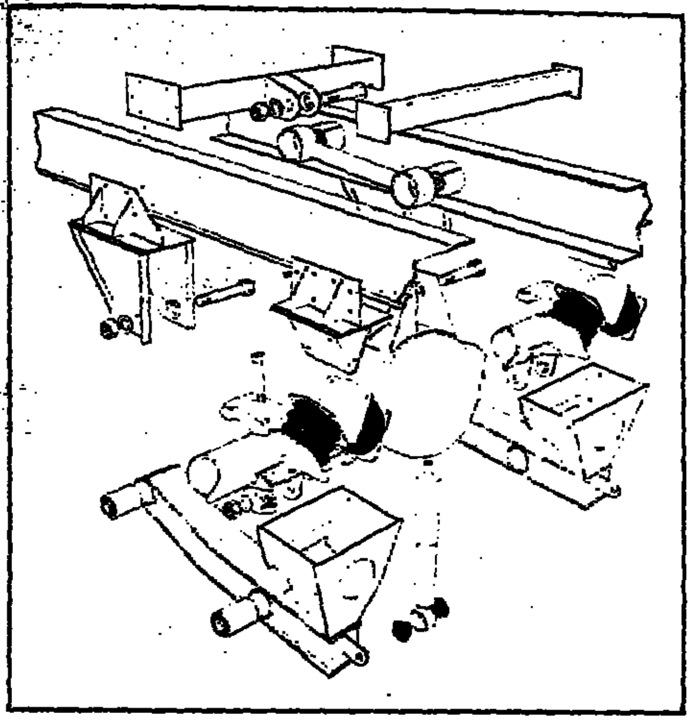
Since there is no metal-to-metal contact with the truck body itself, there should also be a substantial reduction in vibration transmitted to the road surface, lessening both perceived noise and road damage. This element of the suspension's performance is to be investigated by researchers at Southampton University.

The drawback is price: between 20 per cent and 30 per cent more than conventional systems. The differential, however, could be expected to narrow as output builds up at Corby. About 3,500-4,000 units have been produced to date, and output is climbing from about 30-35 a week now to a targeted 100 a week by the end of the year.

Up to now, Rydewell's sales have been directly to operators. Now, however, says Mr Arthur Clarke, its chairman, the company can nurse hopes of its fitment as original equipment—a situation which almost certainly would involve further licensing agreements.

Since the move from its initial premises at Brighouse, Yorks, to Corby last year, to a factory taking advantages of equipments grants from British Steel Industries after the closure of steel-making there, Rydewell has already expanded on its small base.

Its original 20 employees have become 40 and 150 are envisaged. Some £500,000 of new capital has been injected by Midland Industrial Finance, which has also taken a 40 per cent stake in the company, formerly wholly owned by Mr Clarke.



A diagram showing the principle of the rubber suspension system

LEYLAND'S Roadtrain, a vehicle which could benefit from the new suspension system

Message storage

IBM AND Delphi Corporation announced simultaneously this week systems to record, store and forward voice messages over the telephone.

It is believed that the Delphi system will be used as the basis of a public telephone answering service by British Telecom. BT and Nexos, the State backed UK office equipment company which has the exclusive European licence for the Delphi system, have been in negotiations for some months now.

The IBM system—Audio Distribution System or ADS—is based on the IBM minicomputer Series/1. Voice messages are translated by the system into computer code and then stored on magnetic discs. According to IBM the system can be used from a pay phone, from home, or from work using a touch-tone telephone, or a dial telephone fitted with a tone generator.

IBM said: "Users of the system can retrieve, record, hear, alter and transmit messages by using the tones generated by a telephone keypad."

The ADS system including software and the Series/1 minicomputer will cost from US$115,000 to US$235,000, and accommodate up to 1,000 users. First customer shipments are scheduled for February 1982.

The Delphi system is based on one of the fastest commercial computers available, the Delta 2, a multimicroprocessor device capable of handling 240m instructions a second.

The ability to store voice messages and forward them to the recipient at the right time heedless of time zones or working practices is seen as a major goal of office automation.

Spanish sunshine provides the electricity

BY MARK NEWHAM

MORE THAN 1,000 people in southern Spain started using electricity direct from the sun this week via Spain's first solar power stations in Almeria.

Backed by the International Energy Agency (IEA), nine of the IEA's 21 member countries put up DM 70m (37 per cent from West Germany) to build the stations—two plants, each with a 500 kilowatt capacity.

Despite their identical generating capacities, the two stations use different solar technology. One, the Central Receiver System (CRS), generates electricity from a 500 Kw turbine driven by steam produced in a central tower.

A field of 93 39 square metres area mirrors (heliostats) focuses the sun on a boiler in the tower to heat liquid sodium. This turns water to steam to drive the turbines. The heliostats are computer controlled to track the sun and maintain maximum reflection on the boiler.

Next to the CRS is the station's Distributed Collector System (DCS). Over 5,000 square metres of solar collectors with U-shaped cross-sections focus sunlight on central oil-filled tubes running down the centre of each collector.

Through a heat exchanger, the heated oil turns water to steam to drive another 50 Kw turbine.

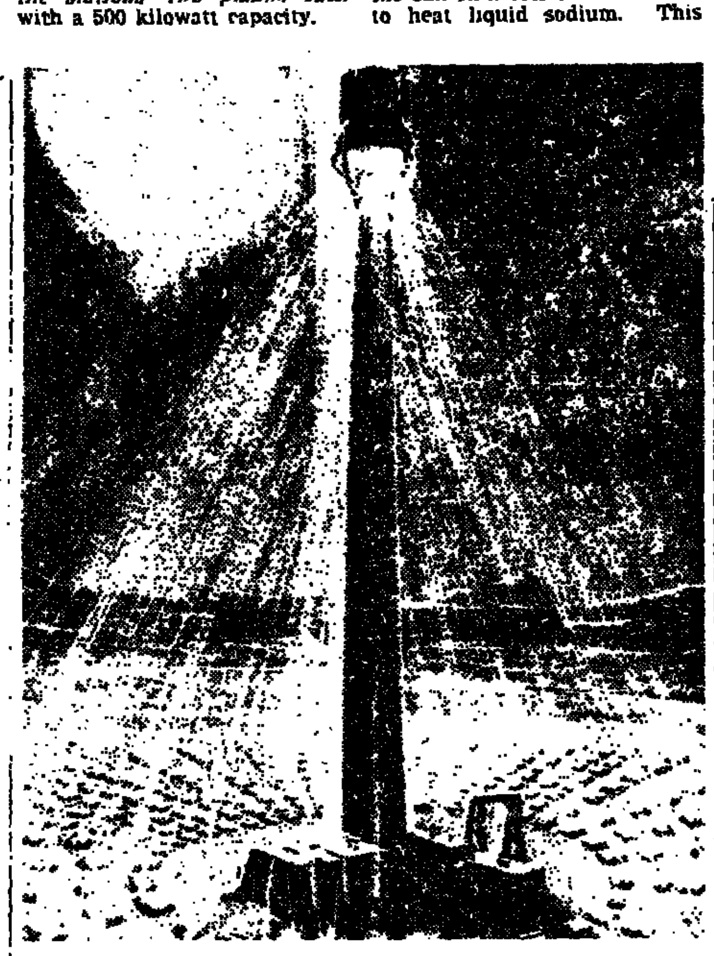
Project management was by West Germany's aerospace establishment (DFVLR) which sited the two plants next to each other to monitor their performances under identical conditions.

West Germany's Interatom was lead contractor on the CRS while Acurex of the U.S. and MAN of Germany supplied the DCS collectors. Electricity from the plants is fed to consumers through the grid of the Spanish utility, Sevillana de la Electricidad.

If the CRS performance lives up to expectations Interatom plans to build a central receiver 40 times bigger, possibly at Badajoz, South-West Spain.

Interatom has been working on its 20 Mw gas-cooled solar tower (GAST) design with other West German companies since 1978. GAST is likely to cost DM 500m of which DM 50m has already been offered by Germany's Research and Technology Ministry, and DM 40m by Spain's Industry and Energy Ministry.

Spain is not the only country using large scale solar technology. The world's first grid electricity producing solar plant came on line at Adrano, Sicily, earlier this year. The plant, financed by the EEC and capable of generating 1Mw, was swiftly followed on line by two 1Mw plants at Nio on Shikoku Island, Japan.



AN artist's impression of a power tower, a method of using solar heat for the large scale generation of electricity. This particular idea orginated in the U.S. under an experimental government study. The proposal was for a steam boiler mounted on top of a tower several hundred feet high with banks of heliostats mounted round the tower base

POINTERS

Welding hire

A DEVELOPMENT in welding techniques for pipework is available on either short- or long-term hire from Noblehire, 17, Royce Road, Carr Road Industrial Estate, Peterborough (0733 44144).

Advantages to the users (who are given the services of a skilled engineer for instruction following commissioning) are constant control of speed to suit the application, and exact repeatability at any future date.

Positioned in seconds, the welding head comes in a range of sizes to suit outside diameters of between 3 mm to 220 mm, and has a particular pincer action which clamps swiftly and securely to the tube.

Better service

AN IMPROVED service to customers' needs for decorative finishes and car repair paints is promised by Sikkens UK which has invested £130,000 in a 10,000 sq ft extension to its Abingdon warehouse.

The company supplies a complete range of specialist fillers, primers and undercoats and says its transparent wood-finishes for interior and exterior timber has been used for many years in the UK.

Overboots

WELTED overboots and overshoes, made from ceramic terylene with a neoprene sole can safely be autoclaved up to 134 degrees C for three minutes, says Countdown Clean Systems. More from 0773 604411.

CONTRACTS AND TENDERS

TELEVISION

BBC 1

6.40-7.55 am Open University (Ultra High Frequency only). 9.05 For Schools, Colleges. 10.00 You and Me. 10.15-12.07 pm For Schools, Colleges. 12.30 News After Noon. 12.57 Regional News for England (except London). London and SE only: Financial Report. News Headlines. 1.00 Pebble Mill at One. 1.45 Bod. 2.01-3.00 For Schools, Colleges. 3.15 Songs of Praise. 3.53 Regional News for England (except London). 4.20 Think! Backwards. 4.35 Jigsaw. 5.00 John Craven's Newsround. 5.10 Blue Peter. 5.35 Willo the Wisp.

5.40 News.

6.00 Nationwide (London and South East only).

6.25 Nationwide.

6.55 Angels.

7.20 Blake's Seven.

8.10 Panorama: The Labour Party Deputy Leadership — and the future of the Party.

9.00 News.

9.25 The Monday Film: "The Ipcress File," starring Michael Caine.

11.10 Film 81.

11.38 News Headlines.

11.40 A Little Night Music.

Wales—12.57-1.00 pm News of Wales. 1.45-2.00 Dan Dred. 6.00-6.25 Wales Today. 6.55-7.20 Heddiw. 12.10 am News and Weather for Wales.

Scotland—11.00-11.20 am and 12.10-12.30 pm For Schools. 12.57-1.00 The Scottish News. 6.00-6.25 Reporting Scotland. 11.40 Cearcall. 12.10 am News and Weather for Scotland.

Northern Ireland—12.57-1.00 pm Northern Ireland News. 3.53-3.55 Northern Ireland News. 6.00-6.25 Scene Around Six. 12.10 am News and Weather for Northern Ireland.

Chris Dunkley: Tonight's Choice

It's a good job the BBC offers a fairly interesting night, because, with one exception, ITV's schedule looks dire. The exception is Jonathan Dimbleby's series on international politics, The Eagle and the Bear. That, of course, clashes with big brother David Dimbleby's presentation of Panorama on BBC-1, which deals with a precisely similar topic. William Shawcross is scheduled to report from inside Vietnam on the awful state of that country. He discerns a Chinese/American alliance aimed at bleeding Vietnam dry, exemplified by a stagnating economy and starving children.

Panorama is also due to report on the significance of the result in the Labour deputy leadership election. BBC-2 puts a neat bracket round Panorama with Ed Mullins' report on Picasso's Picassos, inspired by the superb Hayward exhibition, at 7.35, and the second episode of A Kick Up the Eighties, which at 9.00 looks at "another British invention taken over by the Japanese: work."

But the evening's most promising programme is the first in a new season of BBC-2's long-running and continually impressive series, Horizon. This autumn's subjects will include Legionnaires' Disease, Soviet Science, and the death of dinosaurs, but tonight's programme is particularly welcome, being on a subject which is left far too often to the emotional appeal of limp-brained, back-to-nature obscurantists: "acceptable risk" as applied to nuclear power stations, petrochemical works, and so on.

BBC 2

6.40-7.55 am Open University. 9.30 Labour Party Conference. 11.00 Play School. 11.25-12.30 and 2.00-4.35 pm Labour Party Conference. 4.35 Micros in the Classroom. 4.50 Open University. 6.55 Paint! 7.20 Art Unlimited with George Melly.

7.25 Return Call to Brass Tacks.

7.30 News Summary.

7.35 Picasso's Picassos.

8.10 Des O'Connor Tonight.

9.00 A Kick Up the Eighties.

9.30 Horizon.

10.20 Innes Book of Records.

10.45 Newsnight.

†11.40-12.05 am Laurel and Hardy.

LONDON

9.30 am Schools Programmes. 12.00 Cockleshell Bay. 12.10 pm Rainbow. 12.30 Me and My Camera. 1.00 News plus FT Index. 1.20 Thames News. 1.30 About Britain. 2.00 The Riordans. 2.30 The Andy Williams Show. 3.00 The Labour Party Conference. 4.15 Bugs Bunny. 4.20 The Sooty Show. 4.45 Dangermouse. 4.55 Stig of the Dump. 5.15 Botanic Man.

5.45 News.

6.00 Thames News.

6.25 Help!

6.35 Crossroads.

7.00 Bullseye.

7.30 Coronation Street.

8.00 Never the Twain.

8.30 Jonathan Dimbleby in Evidence: The Eagle and The Bear.

9.00 "East of Eden," starring Timothy Bottoms and Jane Seymour.

10.00 News.

10.30 "East of Eden" (continued).

11.30 The Monte Carlo Show: Patrick Wayne introduces Dionne Warwick and Charles Aznavour from the Monte Carlo Sporting Club in Monaco.

12.30 am Close: "Sit Up and Listen" with Shirley Williams.

† Indicates programmes in black and white

All IBA Regions as London except at the following times:

ANGLIA

12.30 pm Botanic Man. 1.20 Anglia News. 2.00 Then Came Bronson. 5.15 Bless Me Father. 6.00 About Anglia. 6.30 Survival. 11.15 Anglia Reports. 11.45 Anglia Late News. 12.00 The Lena Martell Show. 12.30 am Reflection.

ATV

12.30 pm Botanic Man. 1.20 ATV News. 2.00 The Cabot Connection. 5.15 Joe 90. 6.00 ATV Today. 11.15 ATV News. 11.20 Left, Right and Centre.

BORDER

12.30 pm Botanic Man. 1.20 Border News. 2.30 The Entertainers. 5.15 Survival. 6.00 Lookaround Monday. 6.15 The Spinners and Holidays. 6.45 The Pet Show. 11.15 RL Action: Bradford Northern v Wigan. 12.00 Border News Summary.

CHANNEL

12.30 pm Botanic Man. 1.20 Channel Lunchtime News, What's On Where and Weather. 2.00 The Monday Matinee: "Risk". 5.15 Happy Days. 6.00 Channel Report. 6.25 School Report. 6.35 Ladies First. 10.28 Channel Late News. 11.15 That's Hollywood. 11.45 News and Weather in French.

GRAMPIAN

9.25 am First Thing. 12.30 pm Botanic Man. 1.20 North News. 2.00 The Love Boat. 5.15 Mork and Mindy. 6.00 North Tonight. 6.35 Country Focus. 11.25 Willie Dickson and the New Generation of Chicago Blues (filmed at the Berlin Jazz Festival in 1977). 12.20 am North Headlines.

GRANADA

12.30 pm Botanic Man. 1.20 Granada Reports. 2.00 And Then Came Bronson. 5.15 Give Us A Clue. 6.00 Granada Reports. 11.20 RL Action—Bradford Northern v Wigan. 12.05 am Love Thy Neighbour.

HTV

12.30 pm Botanic Man. 1.20 HTV News. 2.00 Survival Special. 5.15 The Flintstones. 6.00 Report West. 10.28 HTV News. 11.20 Star Parade.

HTV Cymru/Wales—As HTV West except: 12.00-12.10 pm Pelidraw. 4.45-5.15 Sêr. 6.00 Y Dydd. 6.25-7.00 Report Wales. 8.30-9.00 Yr Wythnos.

SCOTTISH

12.30 pm The Botanic Man. 1.20 News and Road and Weather. 2.00 Survival. 2.30 Father Dear Father. 5.15 Emmerdale Farm. 6.00 Scotland Today. 6.40 Crimedesk. 11.25 Late Call. 11.30 Musical Hour.

SOUTHERN

12.30 pm Botanic Man. 1.20 Southern News. 2.00 Houseparty. 2.25 Cartoon. 2.30 End Of Part One. 5.15 Happy Days. 6.00 Day By Day including Southsport. 11.20 Fantasy Island.

TYNE TEES

9.20 am The Good Word. 9.25 North East News. 12.30 pm Botanic Man. 1.20 North East News and Lookaround. 2.00 Story Hour. 5.15 Happy Days. 6.00 North East News. 6.02 Give Us A Clue. 6.30 Northern Life. 10.30 North East News. 11.20 The Duna Bull. 11.55 Readers of the Word.

ULSTER

12.30 pm Botanic Man. 1.20 Lunchtime. 2.30 Stars On Ice. 4.13 Ulster News. 5.15 Joe 90. 6.00 Good Evening Ulster. 10.29 Ulster Weather. 11.20 Bedtime.

WESTWARD

12.27 pm Gus Honeybun's Birthdays. 12.30 Botanic Man. 2.00 The Monday Matinee: "Risko." 5.15 Happy Days. 6.00 Westward Diary. 11.15 That's Hollywood. 11.45 Faith For Life. 11.50 West Country Weather, Shipping Forecast.

YORKSHIRE

12.30 pm Botanic Man. 1.20 Calendar News. 2.00 Bygones. 2.30 Make Mine Music. 5.15 Survival. 6.00 Calendar (Emley Moor and Belmont editions). 6.30 Give Us A Clue. 11.15 RL Action: Bradford Northern v Wigan.

RADIO

RADIO 1

(S) Stereophonic broadcast
† Medium Wave

5.00 am As Radio 2. 7.00 Mike Read. 9.00 Simon Bates. 11.00 Andy Peebles. 12.30 pm Newsbeat. 12.45 Paul Burnett. 2.30 Steve Wright. 4.30 Peter Powell. 7.00 Stayin' Alive. 8.00 Richard Skinner. 10.00-12.00 John Peel (S).

RADIO 2

5.00 am Steve Jones (S). 7.30 Terry Wogan (S). 10.00 Jimmy Young (S). 12.00 John Dunn (S). 2.00 pm Ed Stewart (S). 4.00 David Hamilton (S). 5.45 News and Sport. 6.00 David Symonds with Much More Music (S). 8.00 Folk On 2 (S). 9.00 Humphrey Lyttelton with the Best of Jazz (S). 9.55 Sports Desk. 10.00 Pop Score. 10.30 Star Sound. 11.00 Brian Matthew with Round Midnight. 1.00 am Truckers' Hour (S). 2.00-5.00 You And The Night And The Music (S).

RADIO 3

6.55 am Weather. 7.00 News. 7.05 Morning Concert (S). 8.00 News. 8.05 Morning Concert (continued). 9.00 News. 9.05 This Week's Composer: Frank Martin (S). 10.00 J. C. F. Bach (S). 10.25 Israel Piano Quartet (S). 11.25 pm Midday Concert, part 1 (S). 1.00 News. 1.05 Midday Concert, part 2 (S). 1.45 Britten (S). 2.00 Matinee Musicale (S). 3.00 New Records (S). 3.55 Leeds '81 (S). 4.55 News. 5.00 Mainly For Pleasure (S). 7.00 They Did It First (Documentary Radio in the '30s). 8.00 The '20s And Beyond (S). 8.15 Evelyne Brancart piano recital (S). 9.50 Green Sky Over White Sand (Short story). 10.05 Bach Cantata No. 51 (S). 10.30 Jazz in Britain (S). 11.00 News. 11.05-11.15 Beethoven (S).

RADIO 4

6.00 am News Briefing. 6.10 Farming Week. 6.25 Shipping Forecast. 6.30 Today. 8.35 The Week On 4. 8.45 Talking To Animals by Barbara Woodhouse. 9.00 News. 9.05 Start The Week With Richard Baker. 10.00 News. 10.02 Enterprise. 10.30 Daily Service. 10.45 Morning Story. 11.00 News. 11.05 Down Your Way. 11.50 Letter From The Far West. 12.00 News. 12.02 You And Yours. 12.27 Joke By Joke by Nat Gubbins (S). 12.55 Weather, programme News. 1.00 The World At One. 1.40 The Archers. 1.55 Shipping Forecast. 2.00 News. 2.02 Woman's Hour. 3.00 News. 3.02 Afternoon Theatre (S). 4.35 Fritz On Monday. 4.45 Story Time. 5.00 PM: News Magazine. 5.50 Shipping Forecast. 5.55 Weather: Programme News. 6.00 News, including Financial Report. 6.30 I'm Sorry, I Haven't a Clue (S). 7.00 News. 7.05 The Archers. 7.20 Start The Week with Richard Baker. 8.00 The Monday Play (S). 9.30 Kaleidoscope. 9.59 Weather. 10.00 The World Tonight. 10.30 Science Now. 11.00 A Book At Bedtime. 11.15 The Financial World Tonight. 11.30 Music At Night. 12.00 News.

The trial of Ian Botham

IT IS the common, if not invariable practice of prosecuting authorities in this country that if a jury cannot agree on its verdict, either unanimously or by a majority of 10 to two, the defendant has to undergo the ordeal of a second trial.

Only after a second "hung" jury does the prosecution relent and invariably proceed to offer the court no evidence, which means the acquital of the defendant. More than twice in jeopardy of one's liberty is more than human flesh should be made to bear. (Incidentally, professional experience tends to support the view that the second time round there is a preponderance of guilty verdicts over both acquittals and second disagreements.)

Why then was Ian Botham, England's cricketing hero of a quite remarkable summer's sport, let off the hook at the first time of asking a jury which had declared itself locked in irrevocable disagreement? Prosecuting counsel at Grimsby Crown Court gave two reasons for not proceeding to ask, and getting, a second trial.

He maintained that the public had been saturated by the media coverage of the case that it was not possible to guarantee a fair trial on any subsequent occasion. One is puzzled to see the validity of that argument. Would Peter Sutcliffe of Yorkshire Ripper infamy (whose case evoked more yards of journalistic copy than almost any other case in recent times) have been spared a second trial if the Old Bailey jury had been hopelessly divided over the psychiatric evidence that unanimously concluded that he was guilty only of manslaughter on the grounds of diminished responsibility? If the Attorney-General had been predictably inclined to call it a day, clearly Mr Justice Boreham would have insisted on a re-trial.

Would, moreover, Mr Jeremy Thorpe and his co-defendants (the other modern trial that titillated the voracious appetite of the Press) have similarly escaped a second bite at the cherry by the prosecution, had that jury been unable to return a verdict? Those whose careers bring them constantly before the public eye and ear clearly are not entitled to any privileged treatment; they must bear the added consequences of fame.

It may be of course that no jury in the length and breadth of England and Wales could conceivably ever convict Ian Botham after his heroic performances of recent months. It is often claimed as a prime virtue of the jury system that even in the teeth of the most compelling evidence (and it is not suggested that the prosecution's case against Ian Botham fell into that category), a jury will not convict if it thinks (or a substantial number of jurors think), that the result of convicting would be socially unjust.

THE WEEK IN THE COURTS

BY JUSTINIAN

One wonders what the Grimsby jury would have had to say, had Ian Botham's cricketing prowess, so excitingly evidenced from Headingly, to the Oval via Edgbaston and Old Trafford, plummeted this summer, following pattern of the first two Test matches against the Australians. Surmise on that will have to remain conjecture, for under the Contempt of Court Act 1981 jurors can no longer be interviewed about their deliberations in the juryroom.

The second reason advanced by prosecuting counsel for the exceptional move of relieving Ian Botham of a re-trial is altogether more plausible, and raises a more general issue of principle. On humanitarian grounds the prosecution did not seek a verdict from a fresh jury, because Ian Botham had already been subjected to more pressure than the average defendant; and a further wait of a week or two and another day (or days) in court would doubtless exacerbate the anxiety that always attaches to a person in the dock. Whatever the psychological effects of impending criminal trial, it clearly did not weigh too heavily on Ian Botham during the heady moments on the pitch at Headingly.

But Ian Botham is not alone in having to suffer the anxiety of court proceedings. Even those not in the public eye often find their said peccadilloes (whether criminal or not) paraded before their more limited circle of friends and acquaintances by publicity of their cases in local newspapers a strain. The unwanted publicity of court proceedings can even have the result of social ostracism. The reporting of names and addresses of individuals appearing before the criminal courts has, moreover, always been a haphazard way both of adding materially to the punishment of offenders who are convicted and of inflicting some obloquy on those who are found not guilty.

The Contempt of Court Act 1981 has now given the courts the power to order postponement of a report of all proceedings for such period as the court determines "where it appears to be necessary for avoiding a substantial risk of prejudice to the administration of justice." Only last week a Metropolitan stipendary magistrate ordered that the names and addresses of 14 Iranian opponents of Ayatollah Khemeini, charged with criminal damage when invading and occupying the Iranian consulate three weeks ago, should not be published contemporaneously, for fear that there might be retaliation on the Iranians' families.

In 1972 the Committee of Privacy had felt unable to recommend any extension of the few legal bans on reporting of identities in magistrates' court proceedings (by implication the committee would not have been prepared to prevent publicity of cases in Crown Courts.) The very recent change in the law is only a marginal extension of the limited restrictions on press reporting of court cases.

Half of the members of the Royal Commission on the Press in its report in 1977 did not agree with the conclusion of the Committee on Privacy. They wrote that "where the relatively minor offences dealt with in magistrates' courts are concerned, the group does not accept that it is right for the fear of random publicity to be used as a deterrent against wrongdoing." Nor was the group persuaded that any deleterious consequences flowed from anonymity in countries where schemes for ensuring privacy operated. (In practice, if publicity in magistrates' court proceedings were to be prohibited, it might act as an incentive to defendants opting for summary trial instead of invoking costly and time-consuming trials by jury in the Crown Courts: Lord Hailsham, please note).

The Royal Commission on the Press recognised that the issue of unwanted publicity raised questions wider than the reporting of proceedings in magistrates' courts. It, therefore, recommended that the Government should appoint a committee to consider the rights to anonymity of people accused, whether found guilty or not, and the rights of the Press and the public to information about such cases. It added that the issue had become urgent because of the 1976 change in the law placing restrictions on reporting the names and addresses of both the complainant and the accused in cases of rape. Only this summer the High Court extended that statutory principle by upholding an order made by justices at Hove who had allowed female prosecution witnesses to remain anonymous in a case of conspiracy to procure women to become prostitutes, where the defendants had published allegedly pornographic photographs of the women.

Apart from the minor excursions into law reform in the Contempt of Court Act 1981, and the Sexual Offences (Amendment) Act 1976, the Government's response to the Royal Commission on the Press has been silence. Anonymity for defendants in criminal proceedings is still an urgent issue that, with all its ramifications, should not remain unstudied.

Mid table too flattering for two 'top' teams

SOCCER

BY TREVOR BAILEY

ARSENAL and Manchester United are tied in the middle of the First Division table with nine points each from seven matches.

On the evidence of their match at Highbury on Saturday—no goals and very little entertainment—this position flatters them and they were lucky to have attracted a gate of nearly 40,000.

Two thoroughly professional sides fought a mundane battle in which neither was as impressive as last season but, under the circumstances, it is not really surprising.

Manchester United are the country's best supported club. Its followers demand not only success but also panache and glamour. As a result the board sacked manager Dave Sexton, even though his side was "coming good" and acquired the more flamboyant Ron Atkinson and provided him with plenty of cash to strengthen the side.

He has already acquired Stapleton, probably the best centre-forward in the land, Gidman, a talented international full-back, and Moses from his old club for a squad which already contained more quality footballers than most clubs.

So far the new-look United are still seeking the blend and confidence needed to gain honours. Assuming they avoid the injuries which plagued them at the start of last year, they could well start showing the form which their ability warrants — and their fans expect — around December, which makes them an interesting bet for the F.A. Cup.

The Gunners, on the other hand, still possess a splendid keeper, a compact and well drilled back four and a very hard working midfield quartet which, even if short on artistry, does tend to stifle the opposition so they remain a hard side to beat.

However, they are neither as impressive or attractive as they have been. The main reasons for their decline are that, not surprisingly, they have been unable to find adequate replacements for Stapleton and Brady.

At the moment they urgently require a powerful lead forward to take some of the pressure off the dangerous, if rather temperamental, Sunderland, while another inventive halfback would not go amiss.

It is, of course, too early to judge whether the introduction of the extra point for a win has had any effect on how the game is played and, in particular, whether it has increased the emphasis on attack, but this Arsenal v United clash suggested it has not.

The weakness of the new ruling is the temptation for the side which has taken the lead and has three points in sight to shut up the game even more than in the past.

I do not think we shall see any noticeable difference in tactics until the end of the season when all clubs will know exactly what points are required from them to win a league, or to avoid relegation. When that occurs it could well be a different story.

A return to sporting sanity is required

RUGBY

BY PETER ROBBINS

IN JULY last year the Rugby Football Union circularised affiliates with guidance on injury prevention. The union feels it timely to report progress and to re-emphasise its points.

As it said, injuries are inevitable in a hard-contact game. Very properly, however, it stresses that all involved must reduce and prevent serious injury.

One of rugby's proudest traditions is its sporting spirit. This ideal has been eroded. This very weekend we have had the unedifying experience of an English international dismissed from the field for butting an opponent in a local derby.

International players have a responsibility to set the highest example to youth. Schools are enjoined by headquarters to play hard without intent to maim, then the young read of a senior players' senseless brutality.

The union's circular says that at school level emphasis must be on development of skills and enjoyment of the game. Why school level only?

The International Board approved a Rugby Medical Fellowship for a doctor to collate and analyse figures of injuries and report how they can be reduced. Will the findings be taken to heart, however?

Law changes have been made to eliminate injuries, notably regarding the tackle.

The tackled player must now release the ball immediately and move away without interfering with the ball until he is on his feet.

Observations at club and school level, however, show confusion among referee societies.

A prominent Midlands' club president reports his players being penalised when held by the opposition in a standing position.

Many injuries have a direct link with players' ignorance of the laws and the disparate application of these by referees. Both states of ignorance lead to frustration. This is a main cause of violence and bodily harm.

The union's circular highlights two areas—fitness and technique. The game's appeal is so wide many playing have no aspirations to genuine fitness and/or improved techniques. They are at greater risk physically than those who prepare. One sympathises with those who simply want Saturday recreation and who seem prepared to accept accompanying risks.

The set scrum also causes alarm. A macho image attaches to the front row. Domination over one's opponent can be achieved collectively however without constant lowering and twisting. The new law relating to the arm position is an attempt to stop that.

Front-row stability ensures a cleaner, more useful exit of the ball. As the report indicates, if the shoulders go below the hips the scrum will almost certainly collapse. Likelihood of serious injury is self-evident. Paradoxically, the new law has altered the front row's physical geometry and produced dangers.

So, in spite of the scrum's sacred status, unless there is a return to sporting sanity the authorities may have to reconsider its role, if, as I believe, they are genuinely interested in safety.

Sales prices set to rise

RACING

BY DOMINIC WIGAN

WITH A PREDICTABLY strong catalogue (on paper at least) this week's Tattersalls' premier October sales seems sure to reflect the inflationary trend so evident at the Keeneland and Saratoga sales.

No one, apart possibly from the partners in the sales company, is likely to be looking to the outcome of this auction in which records will again be tumbling with more relish than Comte Roland de Chambure and Alec Head.

Their Haras d'Etreham establishment has achieved the highest aggregate at this yearling dispersal for the past four years and it is long odds-on that it will maintain its position.

This time Haras d'Etreham has submitted a draft of nine, among which there are colts by Green Dancer, Riverman, Habitat, Forli and fillies by Vaguely Noble and Homing.

Another vendor, whose reputation for producing beautifully bred and well turned-out yearlings should again be enhanced, is the Overbury stud which is offering a bay full-brother to Grundy as well as a son of Parsimony sired by Mill Reef.

Other yearling colts related to classic winners among the 459 entries for the sale include a half-brother by Grundy to Enstone Spark, a half-brother by Wollow to Roland Gardens, and a half-brother by Bonne Noel to Arctique Royale.

Among the fillies, the most sort-after will be either the half-sister by Lythard to Rheingold or the half-sister by Habitat to Fair Salinia.

GOODWOOD

2.00—Wolver Deen
2.30—Tenth Of October
3.00—Mallard Song*
3.30—Recitation***
4.00—The Thatcher**
4.30—Marmagoa

BUILDING AND CIVIL ENGINEERING

Contractors squeeze margins

BY ANDREW TAYLOR

The recent trend of contractors "buying work" to keep plant and labour forces intact during the recession is causing increasing concern among builders. They fear that the next upturn in the construction cycle may come too late to save some of those firms now tendering for work on little or non-existent profit margins.

Most at risk would appear to be the medium sized companies which do not have the financial muscle of the major international and national contractors nor the flexibility of small operations to turn easily to household repair and maintenance—although, even here, work has now levelled out according to some watchers of the black economy.

With an upturn in construction activity now forecast as unlikely to occur until 1983, the financial pressures are mounting and there are fears that the level of construction company bankruptcies and liquidations may rise over the next 18 months to two years.

So far the level of building company failures has been relatively modest compared with past recessions. This in part reflects the previous weeding out of weaker managements but also the impact of the time-lag between winning a contract several years ago and profits now showing through in company accounts.

The latter is a significant point as it helps to explain why some contractors have managed to achieve relatively modest profit performances against the background of recent industry forecasts that construction output will decline by a further 11.5 per cent this year compared with last year's 5 per cent fall.

A recent study of building costs and tender costs by the Building Costs Information Service shows that contractors winning medium term contracts at the end of 1979 will have done so when tender prices were at a relative peak. In the 12 months to fourth quarter of 1979 tender prices, according to the BCIS, had risen by 30 per cent, compared with an increase in actual building costs of only 18 per cent over the same period.

In fact contracts won 18 months ago may have performed better than some contractors had anticipated—given that projected profit margins may have allowed for faster rates of growth in building costs than actually occurred.

It is the impact of profits coming through from work won several years ago, but only now showing through in published accounts, that has perhaps masked to some extent the affect of the recession on a number of, particularly medium sized construction companies, operating outside of the south east.

Disturbing

But unless there is an upturn in workloads occurs sooner than is now being forecast, it would appear reasonable to expect construction company earnings to come under increasing pressure over the next two years, as work won several years ago, is completed and profits taken.

More disturbing for the industry is the level of some tender prices which have recently been submitted by contractors desperate to win new work and maintain their cash-flow. In some cases these contracts have contained little or no margin for profit.

According to one partner in a small private East Anglian housebuilding company, his firm is currently receiving tenders for sub-contract work at prices no higher than those prevailing two years ago. Contractors by cutting margins to the limit may be exposing themselves to any sudden sharp rise in the cost of building material or labour.

The fear that contractors may well be running a serious risk by "buying work" and concern that the worst of the recession has still to be reflected, construction company profits was a central theme in two key speeches at last week's annual general meeting of the Federation of Master Builders, Harrogate.

Mr Gordon Fisher, a past-president of the Federation and chairman of FEB International, told the conference that he was not convinced that some companies had allowed sufficient profit margins over the past two years to carry them safely into the mid-1980s.

"The profitability shown in 1980-81 has in fact resulted from the settlement of final accounts accumulated over previous years' work: in many instances work won between three and five years earlier," said Mr Fisher.

He warned that the levels of work won in 1980-81 have not been sufficient for this position to be repeated in the next two years. "The carry-forward profit principle may well be all right when work load is an 'on-going' situation, but it is dangerous when work is in short supply and when buying work on low margins to keep going has been the order of the day."

Mr W. L. Clarke, property manager of the corporate finance division of Midland Bank, also warned the conference of the dangers of "buying work." He said that some builders might hope to repair margins by various claims under contract clauses, as work progresses or is completed. "In my view, over-reliance on this is a danger and the time taken in settling claims can disrupt a critical cash flow even further."

It would appear therefore that for those companies which rely solely on contracting for profits that life is unlikely to get much easier for some time yet.

Laing hospital and office block deal

DESCRIBED AS a two-storey "nucleus" hospital to be built at Bridgend, Mid-Glamorgan, is a £14m project awarded to John Laing Construction by the Welsh Health Technical Services Organisation.

This 400-bed district general hospital will have departments located in cruciform blocks on both sides of a hospital "street." New buildings here comprise almost 22,000 metres of floor space to give an accident and emergency department, X-ray and ante-natal facilities, adult, maternity and children's wards, four operating theatres, kitchens, administration and service departments, stores and boiler house.

The hospital's construction will be of reinforced concrete frame and floor slabs on concrete pad foundations, with cladding of facing brick and blockwork cavity wall, and metal cladding in some areas.

Roofing to the pitched roofs of the cruciform units is of concrete tiles, and the contract includes provision of air-conditioning and other internal services. External work will include landscaping, drainage, roads and car parking.

Work is to start soon on the site, near Coity Road, with completion due by the end of 1984.

Architects are the Alex Gordon Partnership, consulting engineer Clarke Nicholls and Marcel (structural), J. Roger Preston and Partners (mechanical and electrical), and quantity surveyors Davis, Belfield and Everest.

NEW HEADQUARTERS building for insurance brokers Leslie and Godwin is under construction under a management contract with £7m awarded by the Imperial Group Pensions Fund to Laing Management Contracting.

Sited adjacent to the Kingsmead shopping centre in Farnborough, Hants., the four-storey block has been planned in a U-shape around a first floor level garden, allowing Leslie and Godwin staff (at present based in two separate buildings in Farnborough) to move in under the same roof.

Ground floor of the new 9,000 sq m building will include car parking space, offices and shop units, with a pedestrian mall linking to the Kingsmead Centre. Above this will be three floors of air conditioned offices.

Construction will be of piled foundations, reinforced in situ concrete frame and cladding of bronze-tinted glass and brick, and the work should be finished early in 1983.

Rush and Thompkins busy

ABOUT £3m worth of new contracts are announced by Rush and Tompkins, £2m worth gained from concentration of efforts at the company's Scottish operations at Lennox House, Cumbernauld.

Due to start next month is a £900,000 job for the Scottish Development Agency for the first phase of the Templeton Business Centre in Glasgow involving converting part of an old carpet factory at Bridgeton into offices and factory units. A home improvement programme for East Kilbride Development Corporation covers 119 terraced and semi-detached houses and 70 flats (over £700,000) and modernisation of 120 houses in the Carbrain district of Cumbernauld (£630,000).

Civil engineering schemes cover resurfacing and rekerbing 3.5 km of the A94 Forfar to Stonehaven trunk road (£½m) and redecking the Douglas water bridge on the A83 at Inverary for £180,000.

In the south is a rail contract for about £300,000, alterations to a BR convalescent home at Dawlish, Devon, and fitting out Fine Fare's store in Sunderland (£½m-plus).

Buildings in colour

RADICALLY CHANGED from a previous format is the British Standards Institution "Paint colours for building" BS 4800, a revision of the 1972 standard.

"The BSI says this publication "at last brings the ideal of total colour coordination within the reach of the entire building industry.

The original wallet, text and coloured chips have given way to an A14 size specification with a five-page foldout with windows designed for use as an overlay with BS 5252 "Framework for colour coordination for building purpose," together with an explanatory text and an appendix of approximate Munsell Reference.

Although the new standard will not take effect until January 1 next year it has been published now for the convenience of potential users and to enable future colour schemes in buildings to be planned.

New escalators

AT PRESENT there are 270 Otis escalators operating in the London underground system, some of which are over half a century old.

New escalators are to replace existing ones with the agreement signed between Otis Elevator and the London Transport Executive and worth £15m to the elevator company.

Danks wins heating deal

VALUED AT £3.5m is Danks of Netherton's tender accepted by the Property Services Agency (Department of the Environment) for a design and development contract for a new heating facility in the West Midlands.

This covers the complete supply of the facility (including civil engineering, foundation and site preparation), a building to house 150m BTU per hour of Danks Metricoal, coal-fired high-pressure hot-water boilers, coal storage distribution and ash handling systems, installation of standby diesel generators, and computerised control for optimum performance.

Work on the contract is scheduled for mid-1983.

Steelwork

ABOUT 300 tonnes of structural steelwork has been fabricated and erected by John Booth and Sons (Bolton) for the modernisation programme being undertaken at the St George's Centre, Preston.

The centre, which was built in the early 1960s, was beginning to look dated, and owner Legal and General Assurance Society's programme will give the city a shopping centre which it believes will rival the best in the country.

Roofing in of various areas of the existing precinct include the circular rotunda and mall to give shoppers complete weather protection.

Moss has £8m plus

MORE THAN £8m's worth of new contracts have been won by William Moss (Construction) during the last two months.

The company's Loughborough office has two projects—one is for British Shoe Corporation, the other for Monarch Knitting Machinery. These are worth together £2.75m.

Liverpool branch announces a total of £2.67m which includes a sheltered housing development in Wigan, the "Rocket" pub at Bowring Park, Liverpool for Higsons Brewery, a new branch office for the Halifax Building Society in Wrexham, and a supermarket scheme for Lennons Group in Clwyd.

Other work started is on a third laboratory contract (worth £424,000) for Esso at Abingdon, and London branch's commencement of two contracts (together worth £1.3m) on an abattoir for Sidney Ziff and a swimming pool for the City of Westminster at Caird Street.

Lovell developments

FIVE RECENT signings for Y. J. Lovell (Southern) are together worth £8m and include a new £1.2m job to redevelop a church site in Horsham, Sussex.

Work involves the erection of a five-storey, L-shape office block plus a separate church and church hall with two-storey accommodation attached.

J. Sainsbury's acquisition of a Lovell-built supermarket shell at Farnborough is worth another £750,000 to the builder for fitting-it out in time to be trading for Christmas.

Work on a Waitrose supermarket has just started at Caterham and this will include a multi-storey car park.

Other work covers three warehouse shells, divided into six, four and four units of about 230 square metres each, for Rohan Developments. These are to be built on a virgin site purchased from Wokingham District Council.

A six-storey office block in suburban Middlesex is worth another £2.5m.

THE MANAGEMENT PAGE

EDITED BY CHRISTOPHER LORENZ

Shell shows a modest social face

Arnold Kransdorff examines a multinational's attitude to UK urban renewal

SAM GALLACHER thinks environment secretary Michael Heseltine is mistaken in his belief that the UK will follow the U.S. pattern on urban renewal—where private industry joins with government in the large-scale redevelopment of depressed inner-city areas.

"It is a question of a difference in philosophy," he says. "In the U.S. everybody, from businessmen to all levels of government, including the public, tends to have a more businesslike approach to solving the problem. On day one they accept that a joint venture to inject life into decaying inner-city areas has to make a profit.

"In the UK, businessmen show little inclination towards programmes of social responsibility and local authorities are generally more interested in getting people into jobs than in assessing the cost of creating them.

"In addition, companies generally prefer to participate in a venture at, or near, the location of their head office. In the U.S. there are many companies with headquarters in decentralised areas whereas in the UK, a larger proportion of companies have their headquarters in London—which means that the provinces would be neglected."

Gallacher should know. He is director of public affairs at Shell UK, one of a handful of British companies that has responded to Michael Heseltine's call to private enterprise to help restore the fortunes of the country's depressed inner cities, the scene of many of this summer's street riots.

In Shell UK's case, the commitment to what it calls urban renaissance is part of the company's overall approach to corporate social responsibility—a concept that is still largely in its infancy in the UK. Whereas most U.S. companies generally would see their "social responsibility" extending to areas of environmental and worker health and safety, energy conservation and the advancement of women and minorities, most UK companies still regard the issue in terms of philanthropy.

Even in this area, British companies—including Shell UK—tend to lag demonstrably behind U.S. companies.

Shell UK gives annual grants and donations to charitable and other causes totalling around £0.6m, equal to 0.1 per cent of 1980s pre-tax profits. Other commitments to social responsibility, including the urban renaissance programme, bring this figure up to £2.1m or 0.4 per cent of profits, but this is still less than half what a typical U.S. company might give to philanthropic causes alone.

Monsanto, the giant chemical company, based in St Louis, has a firm policy to give away up to 2 per cent of annual profits to "worthwhile community causes." This excludes monies committed to other, extensive, social responsibility programmes.

Orchestra

Apart from grants and donations, Shell UK's social responsibility programme encompasses a number of projects under the umbrella of "community affairs," including the sponsorship of the London Symphony Orchestra and a continuing effort to improve Britain's waterways.

Into this category also falls a commitment to "education," which involves providing teaching materials for schools on courses concerning the petroleum industry. It is also involved in youth unemployment through the Government's Manpower Services Commission.

Shell UK hopes, however, that its main efforts in the field of social responsibility will eventually be directed towards urban renewal.

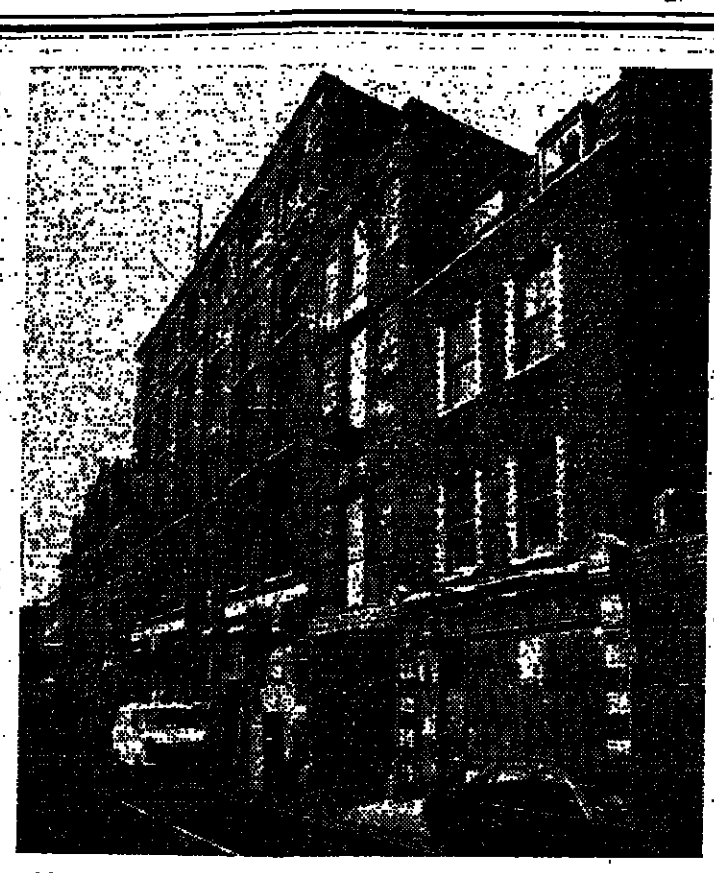
Like most other British companies, Shell UK's involvement in the subject is still hesitant. This could be because of the lack of tax incentives in the UK, in contrast to the U.S. position. But whatever the reason, Shell UK is unapologetic.

"We know our commitment is small beer," says Gallacher. "But if we are going to make mistakes, we prefer to make small mistakes.

"In the U.S., Goverment and industry have been co-operating in urban renaissance programmes since the mid-1940s. Over there local governments put up enormous sums of money to redevelop large tracts of land. Industry comes in because everyone accepts the basic principle that profits have to be made.

"The Shell UK experience so far is that every time we get involved we seem to have difficulty over the objectives. We have to spend so much time getting agreement on philosophy, and in some cases this has been impossible. Some local authorities place a high emphasis on social requirements such as job creation, regardless of cost."

Gallacher adds: "We have got to find a different way of approaching the problem. That's why we are trying Spitalfields." This is a new project to renovate an existing building in a run-down area on the eastern fringes of the City of London. The project is being co-ordinated with three other companies through the London Enterprise Agency (LEntA), an organisation set up to promote small business.



The warehouse in Brune Street, Spitalfields, which is to be converted into workshops. Shell is contributing £100,000

Shell UK's financial involvement is a modest £100,000. A similar sum has been voted by British Petroleum while Barclays Bank and Midland Bank have each put up £200,000.

LEntA says that the project is designed to stimulate improvement in the fabric of the area by providing essential new workshop accommodation. "This will enable the decanting of existing firms from substandard premises to permit their rehabilitation and the introduction of new firms to the area to widen the employment base," it says.

LEntA admits that the development does not meet conventional investment criteria in the short term, but "as the area improves and values rise, the original historic cost input should be recovered by eventual onward sale."

Gallacher is optimistic that the project will eventually meet the company's requirement that it will "stack up." "All the units have been let and the premises should be ready by June next year," he says.

If it does, Gallacher hopes that Shell UK will be the pace-setter for other projects of a similar nature. The UK experience in urban renaissance will, he believes, involve numerous small investments.

Progress, he is equally sure, will be slow—far slower than Michael Heseltine would hope.

How a 'Japanese' formula became an American best-seller

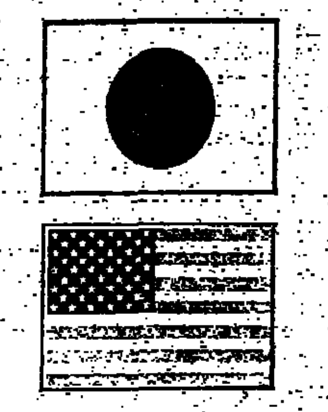
AFTER such gems as "X and Y," "MBWA" and "QWL," now try the latest wonder formula—"Teory"!

To judge from the best-seller lists, the great American public is doing just that; not just businessmen, but old Joe Soap himself. Fascinated, dumbfounded, if not aghast at the unstoppable invasion of America by the fiendish Japanese, they are flocking in thoroughly unexpected numbers to buy a book which combines the apparently impermeable worlds of behavioural theory and "human resources management" (to use the correct business school jargon). Sprinkled with a touch of good old American folksiness, the book has gone through six reprintings in as many months since its publication in early spring, and has climbed on to at least three book club lists.

With its subtitle "How American business can meet the Japanese challenge," "Theory Z" by William Ouchi, a professor at the graduate school of management at University College of Los Angeles, is an unashamed leap onto the "learn from Japan" bandwagon which has been sweeping the West for the last 18 months or so. So is "The Art of Japanese Management," (reviewed below) one of whose authors is Ouchi's former research partner.

Yet the real value of "Theory Z" is its analysis of how several leading American companies—notably Hewlett Packard, IBM, Intel and Eastman Kodak—have built a highly successful consultative relationship between all levels of management, and between management and the shop-floor.

It is Ouchi's discussion of this phenomenon, rather than his survey of the Japanese scene, which takes up the bulk of his immensely readable and entertaining (if sometimes maddening) 270 pages.



"Like the Japanese, leading American companies such as Hewlett-Packard, IBM, Intel and Eastman Kodak, have built a highly successful consultative relationship at all levels of their organisation"

"Stressing ethics rather than the bottom line can actually help the bottom line in the long run"

But the fact that he devotes most of the book to the U.S. rather than Japan is not the only reason why Ouchi fails to convince us of the justification of the Japanese connection. His model American companies did not learn much of what he dubs their "Theory Z" approach to human relations from the Japanese. Their chief mentors were a group of American postwar behavioural scientists and management theorists. And it was these same academics who provided much of the foundation for the modern Japan's way of business management.

Which is where all the initials and acronyms come in. Ouchi admits that his title is borrowed from the "Theories X and Y" propounded by Douglas McGregor in the 1950s: that managers are of two basic breeds, the "X" man assuming that people are fundamentally lazy, irresponsible and need constantly to be watched and "extrinsically" motivated, while the more enlightened "Y" man assumes they are fundamentally hard-working, responsible and need only to be supported and encouraged (that they are intrinsically motivated, in other words).

Ouchi summarises McGregor's work, but fails sufficiently to point out its remarkable effect on the management style of a growing number of U.S. corporations in the 1960s and 1970s. Among other things, it gave extra confidence to the sort of executive who was instinctively an "MBWA" type (Management By Walking About). It also helped give birth just over a decade ago to the "QWL" movement (Quality of Work Life), whose second international conference in Toronto this month attracted over 1,500 delegates from a host of companies and trade unions.

The style spawned by the theories of McGregor and others has all sorts of variations and permutations, to which many labels have been attached, but they all have in common the view of a corporation as an "open system," where trust and consultation replace threat and edict.

Many practitioners of "open systems" management will see Ouchi's "Theory Z" as little more than a new name for what they have been doing for years. But this, and the fact that the book offers not a theory, but a description, is not necessarily to Ouchi's discredit. He has succeeded—to an extraordinary degree—in popularising a style of corporate organisation which is still far from common in the West, but which must be adopted much more widely if companies are to succeed in borrowing "just in time" (Kanban) production systems, quality circles and the other fashionable practices from the Japanese.

Where the European reader feels "Ouch" about Ouchi (which should be pronounced Oh-oo-chee, so Fortune magazine tells us), is with aspects of his over-personalised style, such as when he repeatedly informs us that employees in a "Theory Z" type organisation have more satisfying family and marital relationships than people who work for the run-of-the-mill company.

Ouchi is equally irritating when he denies that his description of the steps through which a company can join the promised land of Theory Z is a "cookbook for management development." Within just four sentences he gives the game away with the following phrase: "as a rough guide, allow approximately two years from the beginning of the process until it has percolated through the ranks of managers."

He goes on to warn that the complete transformation can take as long as 10 to 15 years. But in the process he makes it sound too easy—just like one of those folksy cookbooks of "Aunt Mary's Recipes" that one finds in bookshops on both sides of the Atlantic these days. All too often the elegant theory collapses in the heat of the oven.

Addison-Wesley Publishing Company, Reading, Mass. 01867, U.S., $12.95.

Christopher Lorenz

Morals and work: the great divide

JAPAN IS doing something right, and that something is management. This, in a nutshell, is the theme of a short but thoughtful book by Richard Pascale and Anthony Athos on the reasons for Japan's spectacular success and America's spectacular lack of it in the recent conduct of their economies. Athos and Pascale dismiss "simplistic" explanations of Japan's success (such as the currently popular notion that Quality Circles are the "key").

Instead they try to convince their readers that Japanese managers are better because they start out with a more realistic concept of human relations than their American counterparts. The core of "The Art of Japanese Management" consists of a simple but impressive analysis of the differences between Japanese and Western concepts of "self"—which makes it appear that too much stress on individuality and self-reliance has become a source of rapidly diminishing results in the American business world.

The authors make another point about Western society which sounds simple but could have a lot to do with the supposed distinctiveness of Japanese management methods. This is that the West decided early on that "morals" and "work" belonged in separate spheres. The Japanese, they say, have consistently associated morality with business activity—which is why big companies like Matsushita seem to have the power to command a commitment from their employees which goes far beyond normal career ambitions.

The book turns the tables on sceptics by arguing that it is Western separation of the two areas which is odd, not the Japanese tendency to merge them. To support this view the authors point to some American companies (eg IBM) where the "style" of management includes a very marked stress on service to society or some other ethical objective. Stressing ethics rather than the bottom line can actually help the bottom line in the long run, say Athos and Pascale, although probably not within the quarterly business term which constitutes the horizon for many American managers.

Meticulous

Pascale and Athos do not say that Japanese management is based entirely on "soft" concepts like serving the public or keeping employees happy. A chapter devoted to Matsushita Electric, the Japanese electrical and electronics giant, argues that the genius of the founder, Konosuke Matsushita, lay in combining the soft approach with typically "hard" American techniques (like meticulous planning and profit control, and shifting employees who are not performing up to expectation to other jobs). American business methods, however, tend too often to be 100 per cent hard, say the authors. Their view of what happens as a result of this is spelled out in a long and fascinating case study on ITT under the management of Harold Geneen.

Athos and Pascale could perhaps be faulted for saying too much about Matsushita and not enough about other Japanese companies (which are barely mentioned). Their tendency to attribute Matsushita's achievements to the managerial genius of the founder rather than to other less spectacular causes surfaces when they claim, for example, that Matsushita developed the highly successful VHS system for video tape recording after Sony had come up with the earlier (and today less successful) Betamax system.

Actually it was a Matsushita affiliate, Victor Company of Japan, that developed VHS while Matsushita's own engineers were working on what later proved to be an unsuccessful version of VTR technology. Matsushita's dominance of Japan's domestic market through its network of 30,000 exclusive retail outlets is something else the authors pass over—although they do discuss other reasons for the company's extraordinary ability to maintain market share without necessarily being in the forefront of every technical development.

A book claiming to tell readers how Japanese management works would need to contain more detail (and more scrutiny of the less attractive sides of the Japanese business scene) than Pascale and Athos find space for. But just conveying facts is not evidently their business. In Chapter One the authors say they want to hold up Japan as a "mirror" in which American businessmen can get a new view of themselves and of how they could be doing things better than they are today. The book succeeds in doing that—even if—to those concerned with the day-to-day activities of Japan—the mirror sometimes sems a bit too highly polished.

The Art of Japanese Management: applications for American executives. By Richard T. Pascale and Anthony G. Athos. Simon and Schuster, 1230 Avenue of the Americas, New York NY 10020 U.S. $11.95

Charles Smith

THE ARTS

Lyon/La Cote Saint André

Berlioz Festival

by RONALD CRICHTON

The shade of Hector Berlioz must be smiling at the assiduity with which his native region of France is cultivating his memory. A wry smile, perhaps, for the official approval, but a happy one, surely, for the large, enthusiastic audiences. The capacious Auditorium Maurice Ravel in Lyon was well filled for the second of three performances of *Béatrice et Bénédict*. The Halles at the composer's birthplace, La Côte Saint André, were crammed for the Requiem. Lyon and La Côte share the festival between them—the big city and the small country town in the Dauphiné are a little over an hour's drive apart.

The Requiem had been given already in Lyon by larger forces than La Côte could accommodate — the Paris Opéra Orchestra and choirs from San Sebastian and Sofia in addition to local forces. At La Côte, in the splendid medieval grange (built by the man responsible for Harlech and other Edward I castles in Britain), the Orchestre de Lyon, the Lyon Opera Chorus, and a regional choir were 'left, relatively speaking, on their own. Even so, there were plenty of them.

The great wooden beams (four groups of extra brass perched high in solid-looking Wendy-houses) had much the same effect on the sound as the comparable Grange de Meslay near Tours: instruments are enhanced, but the human voice dries out. The basic vocal sound was whitened, almost colourless (French choral sopranos occasionally remind one of English orchestral violins), yet the big moments were unexpectedly full. It was the less spectacular and ever-surprising quiet effects, like the cry of mourning that persists through the Offertorium, that were in danger of being lost. The solo tenor, Thomas Moser, was placed next to the conductor, far from the chorus, with prosaic results.

Poetry, indeed, was not the foremost virtue of Serge Baudo's alert and vigorous conducting. Some details, like the soft clash of cymbals in the Sanctus, went for little; the upper end of the famous top-and-bottom chords was shrill. Yet the brass bands were rousing, the general impression stimulating, the enjoyment of the audience and the air of busy excitement in the little town contagious.

Béatrice et Bénédict was written for a charming bandbox of a theatre at Baden-Baden. To mount a notoriously fragile opéra-comique in a vast modern concert hall was asking for trouble. On the whole, the result justified the risk. If the attempt did not add much to this operatic Benjamin's dim lustre, a festival of such a kind is surely the right place for trying.

The producer, Jean-Louis Thamin, augmented the dialogue provided by Berlioz with extra material from Shakespeare. *Much Ado* in French is not much fun. The gain in filling in the background was cancelled by the extra length. This was a double-cast solution, the singer-speaker duplications of the main roles carried out with prolonged formality and some ingenuity, the actors adequate if no brilliant, the producer never at a loss for something to do to save the audience from having to concentrate on the music.

Dominique Borg's setting was simple — a plain cyclorama and a stage-cloth of marble and mosaic with large props. The costumes appeared to owe rather a lot to Doré's sketches for *Orphée aux enfers*. Apart from the floral wreaths and fuzzy hair-dos, some of them might have done duty for last year's *Trojans*. At least producer and designer filled the huge acting space fairly satisfactorily. Movements were mainly slow, underlining something that emerged from the musical side of this performance — that, after the overture, the slow music in this supposedly quicksilver caprice is the best.

No surprise, then, that the best singing came from Christiane Eda-Pierre (Hero) and Fiona Kimm (Ursule) in the rightly celebrated nocturne — elsewhere Miss Eda-Pierre's tone was warm but cloudy. As Beatrice, Alicia Nafé's eyes spoke mischief but her voice told less incisively than usual. Ian Caley as Benedict was the single member of the cast to bring the right sparkle to the fast music.

Somarone, the plodding music-master who must come high on any opera-goer's list of operatic bores, was in the skilled and healing hands of Gabriel Bacquier. He even made the cod fugue mildly amusing. *John Nelson conducted.* A deep pit robbed the woodwind lines of sharpness, but the playing was generally nippy. The Festival Chorus enlivened their scenes. The off-stage wedding hymn was not quite secure in pitch, yet the effect was still magical. If only all *Béatrice et Bénédict* was as good as the best pages!

British walk-out at Prix Italia

The traditionally amiable atmosphere of the Prix Italia, Europe's oldest broadcasting festival, was soured on Friday when British broadcasting officials stormed out of the meeting in Siena called to declare the drama winners. Their anger was caused by the announcement that the television jury was awarding the Prix Italia itself, the most highly regarded prize in broadcasting, to the Swedish entry, *Jackpot*, on the grounds of three positive votes and eight abstentions.

Mrs Sidsel Jacobsen, jury chairman, explained that the eight abstentions reflected a strong belief that the standard this year was such that no prize should be awarded at all. British protests, which came from representatives of both the BBC and ITV, were concerned mainly with the fact that the abstentions were declared only after a long period of discussion by the jury and the steady elimination of most contenders.

Keith Williams, head of BBC television plays, declared that the incompetence of the jury was such that he could have no faith in their conclusions. He then led the walk-out.

It was perhaps unfortunate that both the BBC and ITV entries were on the jury's final shortlist of four programmes chosen from the 21 entered, and that Thames Television's play about trainee London cab drivers, *The Knowledge*, was in the last two, eventually being beaten by the Swedish play *Jackpot*. Such near success in a festival where Britain has in recent years dominated the awards list, resulted in the counter accusation that the British broadcasters' real trouble was sour grapes.

Full Prix Italia report in Wednesday's TV column.

CHRIS DUNKLEY

Architecture

Churches of Rome

by COLIN AMERY

Roloff Beny is one of the finest photographers in the world. I first enjoyed his pictures when he illustrated the wonderful book by Rose Macaulay *The Pleasure of Ruins*. He has always travelled far and wide, and wherever he goes he looks at and records the architecture. He has photographed Canada, Japan, India, Ceylon and even Iceland where the buildings are rather thin on the ground.

For more than 30 years he has lived in Rome and he has just published with the writer Peter Gunn a book that will become the classic view of Rome's ecclesiastical architecture. (*The Churches of Rome*, by Roloff Beny and Peter Gunn, Weidenfeld and Nicolson, £15.)

Short of a visit to Rome it is the best way to examine the development of the churches from the earliest meeting places of the Christians to the almost secular Neo-classicism of the late 18th century.

The authors make the important point that we have all become accustomed to think of Rome as a city that is predominantly Baroque and Mannerist, and we forget to look beneath the rich surface to find the more secret and more telling early places of worship. In the centre of Rome next door to the Palazzo Doria stands the church of S. Maria in *Via Lata* which *hides behind its* Baroque *façade fragments of the building where St Paul lived and wrote his epistle to the Hebrews.*

Once you learn to look in Rome through the clouds and trumpets of the Baroque there are places that are austere and moving in their simplicity. S. Maria in Cosmedin and S. Giorgio in Velabro are both examples of churches that have retained an almost domestic simplicity. The conflict between the Imperial ideal and the spiritual ideals of Christianity are vividly portrayed in the churches. The cult of Mithras lies next door to the new Christian cult.

Churches were built out of temples, like the ravishing S. Nicola in Carcere an amalgamation of the remains of the Temple of Juno. This church reflects another side of Rome: its campanile is adapted from one of the fortified towers that grew up in the Middle Ages. Looking down on the city from the Campidoglio the vista is one of domes and spires—a view that takes in the dome of S. Andrea della Valle which is second only in size to that of S. Peter's.

Roloff Beny's photographs are not dry architectural pictures that avoid people, in many of them the churches are in use. We see John Paul II officiating in S. Maria in Trastevere, we see the nuns going about their duties and the candles are always burning. The church of S. Maria in Trastevere is thought to be the first Christian church to be open for public worship. Rebuilt by Innocent II it has an immense and solid grandeur particularly in its incorporation of the massive antique granite columns of the baths of Caracalla and the Temple of Isis. The rich and glorious mosaics in the apse of *this church date from the 12th century with the unforgettable* representation of the 12 Apostles as a flock of sheep.

After the calming effect of Constantine and the powerful effects of the Byzantine influence on the churches it was the *influence of the flocks of pilgrims that changed much of the nature of the church's buildings.* The shrines of Peter and Paul and the actual sites of the martyrdom of several of the saints were a powerful draw for the faithful. During the Middle Ages there grew up around S. Giovanni *in Laterano* the papal administration and all the buildings associated with the reception of pilgrims. Some of the pilgrims were on the grand side . . . the great hall built to receive *Charlemagne for his coronation* by Leo III had a tribune and six apses covered with mosaic.

The splendours of the Lateran Palace did not last and Pope Sixtus V, despite the fact that he did so much to enhance so much of Rome was also responsible for the destruction of the Lateran and its replacement by *the rather grim barrack building* by his favourite architect Domenico Fontana. This book chronicles in outline the building of ecclesiastical Rome and

Campanile of St. Giovanne

adds to the contemporary pictures the prints and drawings of the former city. There are clever architectural tricks here —Borromini's strengthening of the structure of the church of S. Giovanni in Laterano which we can still see today. He simply coupled the old columns and enclosed them within huge pilasters.

Cloisters and campanile attract the eye of this photographer and remind us that the square towers of Rome relate it to the villages of its Lazio region. The campanile illustrated here, SS Giovanni e Paolo, was built around 1150 and has been recently and carefully restored. It has mullioned windows and *handsome cornices* and its *face is decorated with inset porphyry and serpentine* and early china bowls that are probably from North Africa. Who thought that Gaudi had started the taste for broken china as decoration?

The patronage of the *Renaissance Popes brought all the greatest artists to Rome to work* in the service of the Church and the authors rightly raise the question: were the great cardinal patrons really devoted *ad maiorem gloriam Dei et* Ecclesiae or to the perpetuation of their own name and glory?

Cardinal Scipio Caffarelli Borghese, the nephew of Pope Paul V, is described by the authors as "sharing in the post-Tridentine euphoria of his age" —he certainly encouraged the artists of his time and did more than anyone to encourage Caravaggio. Although there is no doubt that he was a fleshpot and a connoisseur he also rebuilt many of Rome's churches.

Inevitably St Peter's is seen as the climax of Rome's ecclesiastical architecture and the photographs convince us of its richness and *ceremonial character. I was glad to see that the authors thought that the 20th century should be included and* they have good photographs of the beautiful bronze door by Giacomo Manzu—a much underrated artist.

There is a lot in this book *to contemplate not least the aspirations of the men who* lifted Rome to the sublime heights of architectural and spiritual glory. The pictures make even the dry architecture of Piranesi lively. It is a book to wallow in for many a long evening.

Elizabeth Hall

Fires of London

by PAUL DRIVER

The Queen Elizabeth Hall was *conspicuously empty* for Thursday's concert by the Fires of London, the one modern music group that has regularly been able to fill it. True, Peter Maxwell Davies himself was absent; nor was there a Davies première on offer. But the evening's conductor, John Carewe, has proved himself with the group on many occasions; and one would have thought that the prospect of three of Davies' outstanding expressionist scores of the late sixties and early seventies was sufficiently tempting.

I must confess, however, that *the first sounds of* the overture, *Antechrist*, filled me with momentary dismay: have the Fires done the piece once too often? Is their party finally over? Though the concert atmosphere was unconducive, the quality of the performance and the music's *enduring strength* it revealed quickly allayed my doubts. For all its parodic brilliance there is absolutely nothing of the meretricious about this or similar Davies works. And Carewe's reading of it was one of the best I've heard: the contributions of the group's relatively new string players, Rosemary Furniss and Jonathan Williams, were particularly valuable.

So far from showing a falling off, the concert went on to present one of the most attractive and compactly substantial works yet *commissioned* by the Fires from a composer not Maxwell Davies. It was Anthony Payne's "scherzo-cum-tone-poem," *A Day in the Life of a Mayfly*, receiving its first performance. By coincidence this musical depiction of the mayfly's *brief*, ecstatic day *of life and its human symbolism* follows a year almost to the day after a performance in the same hall of an identical undertaking by a composer called Marco Pallis.

Whereas Pallis responded to his subject with a blatant *sensuality of harmony and line*, Payne *much more memorably* captures the qualities of the insect's humming flight in scurrying, irridescent textures that also cohere with the utmost rigour as an abstract scherzo movement, and one of positively Mendelssohnian limpidity and speed. Every note tells in the harmonic or decorative way intended; and yet there is room for a richness of symbolic suggestion. It would have been a nice idea to repeat the piece immediately, possibly by *omitting* Rodney Lister's professionally slick but redundant little quodlibet on cowboy tunes *(A Little Cowboy Music Too)* that was premièred in the second half.

The other two Davies works were the suite he compiled from his superb incidental *music to* Ken Russell's film *The Devils*, and the *Missa Super l'Homme Armé* in its revised version of 1971. Mary Thomas was an obbligato vocalist in both—her voice eventually tiring in the plainsong interjections of the first (where trombonist Michael Hext might have lent *more accurate support*), *but returning to form for some* affecting black humour in the "con amore" recitative of the second. She spoilt her performance of *l'Homme Armé*—which did not take up the option of staging that it allows—by a camp, histrionic exit. The revisions make the piece a considerably different experience from that of the recorded version: the honky-tonk pastiche implicit before is now stated explicitly at the end; the spoken part originally devised for Vanessa Redgrave (and *handled by her with unforgettable inquisitional* gravity) is now to be pitched if possible. Between Misses Redgrave and Thomas there is little to choose —both give intense if quite opposed accounts of the music's profoundly painful experience.

Experimental Photography

A revised and enlarged version of the Arts Council's 1980 exhibition *Experimental Photography* begins a tour round Britain on October 3.

The exhibition draws its premise *from* the pioneering *Film und Foto* exhibition held in Stuttgart in 1929. Then, for the first time, the work of artists, professional photographers and amateur photographers was presented together as a reflection and expression of the modern world.

Book Review

Oh goodness gracious me!

by JANET MORGAN

P.S. I Love You: Peter Sellers 1925-1980
by Michael Sellers. Collins. £7.95. 238 pages

Peter Sellers: The Authorized Biography
by Alexander Walker. Weidenfeld and Nicolson. £7.95. 240 pages

Michael Seller's *P.S. I Love You* seems like the first stage of a therapeutic exercise—pages and pages of reminiscence, puzzled, bitter, guilty, about the conduct of Peter Sellers, his children and the rest of his circle during the actor's miserable life.

Sellers' son tries to explain his own and his sisters' misdemeanours, his father's dangerous moodiness, the exasperation endured by Sellers' various wives, but it is too much to expect him to see the oddness of his tale. It is all too raw.

The story is a tissue of paradox. Peter Sellers was a perfectionist in his craft but, according to Michael Sellers and Alexander Walker, a capricious and unreliable smasher-up of friendships, *families and film-sets. A practitioner of yoga, meditation* and theological speculation (of an elementary sort), he hurled china, destroyed furniture (Chippendale) and ground watches (Cartier) under his heel. An acquistive man, he left cameras, boats, cars, houses to collapse, *or sold them off at a loss. A* voracious hunter of women, he sent them packing. A gifted mimic, who could catch and reproduce a character, he was afraid to explore his own personality or even his own sick body.

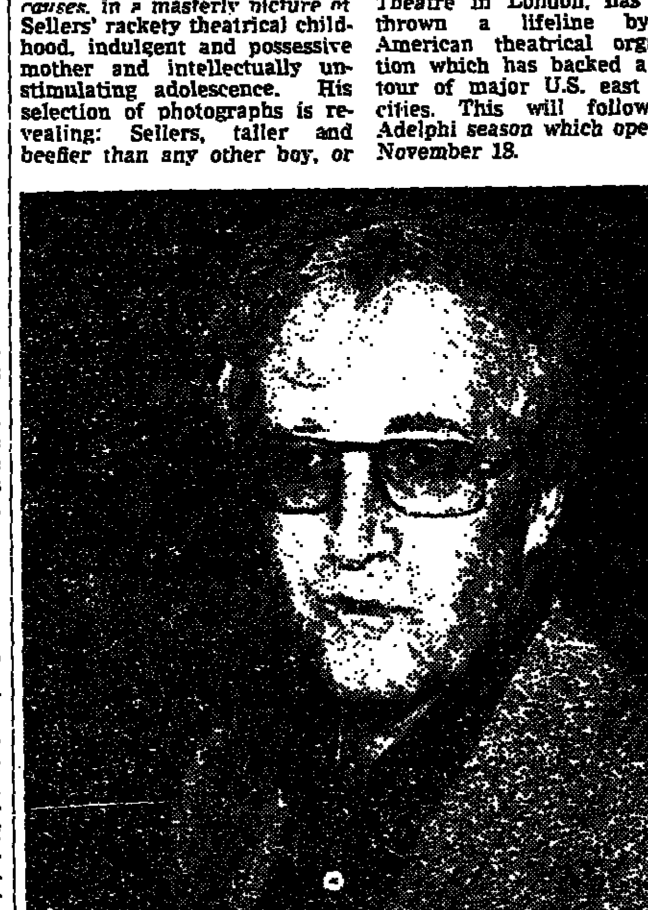
Michael Sellers describes the *effects* of his father's behaviour *in reproachful* detail: shattered ashtrays come from Gucci, shivered jewels cost £5,000, £10,000, seaside villas, chalets at Gstaad are suddenly vacated, solariums carried up and down flights of stairs. . . Alexander Walker, far more fluent and professional, gives us the *causes*, in a masterly picture of Sellers' rackety theatrical childhood, indulgent and possessive mother and intellectually unstimulating adolescence. His selection of photographs is revealing: Sellers, taller and beefier than any other boy, or master, at St Aloysius; plum[...] tailored in a Teddy boy ja[...] with velvet collar; gaunt [...] worn on the front cover an[...] the back, splendidly arch a[...] spector Clouseau in his im[...]méable.

It is fortunate that Alexa[...] Walker does remind us [...] Sellers' better films, that s[...] memory of humour and subt[...] emerges from this bleak [...] *clumsy life*. But we coul[...] with more dissection, espec[...] from Alexander Walker, [...] Sellers' skills. Both these b[...] assert, uncritically, that he [...] "a genius," but was he? F[...] *larking about in the Goon S*[...] *to capturing the benev*[...] emptiness of Chance the [...]dener in *Being There*. Se[...] was practising a special ta[...] mocking, imitative, hysteric[...] its silliest, teasing at its [...]pleasant. How interesting [...] *the most accurate and* [...] frequent, imitations of [...] Sellers used to be given [...] schoolboys, copying Se[...] copying someone else. Cl[...] funny, but insecure and [...] settling: genius? A discus[...] about all this would have g[...] these books some purpose.

For what is their purp[...] Michael Sellers needs [...] assuage his own and his i[...]diate family's feelings an[...] counter the bias he obvi[...] fears other accounts may [...]tain. Alexander Walker w[...] confidant of Peter Sellers [...] is trusted by his widow [...] does this sort of thing [...] professionally and is an ap[...]priate official biographer. [...] for the reader? These b[...] are neither entertaining [...] *edifying. They are profou*[...] depressing. Their only [...]bration is of the patience [...] loyalty of Sellers's friends [...] relatives, injured and [...]ploited as they were and [...] chief value is as a descri[...] of the roots and manifesta[...] *of extended juvenile* [...]linquency.

D'Oyly Carte for U[...]

The D'Oyly Carte Opera [...]pany, threatened with cl[...] *following the forthco*[...] *winter season at the A*[...] Theatre in London, has [...] thrown a lifeline by [...] American theatrical org[...]tion which has backed a [...] tour of major U.S. east [...] cities. This will follow [...] *Adelphi season which ope*[...] November 18.



Peter Sellers

F.T. CROSSWORD PUZZLE No. 4,683

ACROSS

1 Cowpuncher takes doctor along (6)
4 False, as court-cards are (3-5)
10 To leave in the lurch could be a disappointment (3-4)
11 Marshal makes unruly set draw back (7)
12 Reverse arms in bar-parlour (4)
13 Coward's even sunburn is becoming, but not when like this dish (5, 5)
15 Rabble going to French island may be easily moved (6)
16 Greasy type of bar? (7)
20 Rock put in backwards in fireplace (7)
21 Drink that takes some beating (6)
24 Detective and soldier look on (7, 3)
26 Endure a surly person (4)
28 Sucker making outsize copper chimney (7)
29 Wanting airman to precede monarch (7)
30 Two units of measurement used by the farmer (8)
31 Dramatical setting right for an old hand (6)

DOWN

1 Dismal share to a few (8)
2 Exceed in quantity but not in character (9)
3 Broken bone found in wood (4)
5 Swept up on to the shore and done for (6-2)
6 The cost of transporting soldiers in fight on time (10)
7 Jacket I obtained from animal (5)
8 Walk unsteadily with theologian in valley (6)
9 Strangely I can't cut capers (5)
14 Obscure passage that gets one nowhere (5-5)
17 Delivering plaster (9)
18 Pennon to fly over Her Majesty (8)
19 A fish twice seen in jelly (4-4)
22 Coolness shown by madcap Lombardian (6)
23 Everything I possess is in wood (5)
25 Suffer at home with contemptible scoundrel (5)
27 Scare away feline from the South (4)

The solution to last Saturday's puzzle will be published with names of winners next Saturday.

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Monday September 28 1981

The IMF under U.S. scrutiny

THE U.S. Government will be twisting the knife if it perseveres in its campaign to clamp down on the expanding loan portfolio of the International Monetary Fund. Already the very high rates of interest which have resulted from President Reagan's economic policies have had a substantial impact upon the current account deficits of the developing countries. Those developing countries which have no oil will be paying $6bn-8bn more in interest this year because of this factor alone.

This extra burden might be said to nullify the sharp increase of $7bn in loans, creating a total of $11.5bn, to which the IMF has committed itself so far this year — indeed, more than nullify them because the disbursement of IMF loans takes place over a number of years.

Yet the U.S. is now attacking the new pace of the IMF's lending. It is using the forum of the annual meeting of the Fund and the World Bank in Washington this week to export its hard-line economic policies to other countries. It sees the IMF's more generous lending terms as inconsistent with these policies.

Strong

The rest of the IMF membership is right to resist this U.S. campaign. The arguments for increased lending by both Bretton Woods institutions are strong and getting stronger. If the 1970s was the decade when the commercial banking system outpaced these institutions in putting OPEC surpluses at the disposal of countries in deficit, the 1980s will be the decade when the excesses of such bank lending have to be unravelled. As the list of debt reschedulings grows longer the importance of economic advice and discipline as an accompaniment to loans will grow more apparent.

The IMF is unique in its ability to monitor the affairs of indebted nations in this way—witness the desire of the international bankers to involve the IMF in the problem of Poland's bank debts. But this ability can be used much more constructively before a debt crisis occurs than when the Fund is invited in as lender of last resort. If the IMF is to be involved early it must be in a position to provide loans of an amount, and on terms, which have some relevance to the scale of the borrowing country's needs.

It is from this perspective that the $5.7bn loan which India has been discussing with the IMF, seems so encouraging a development. The U.S. Administration has criticised this loan, suggesting that the terms are too lax and that bank credit is still available to the country. Yet here is a giant of the developing world, which has in recent years sought counterproductively to develop itself in semi-isolation, involving the IMF in the management of its economy, and doing so before the flows of private finance have dried up and before there is any need for terms and conditions likely to cause "IMF riots."

Challenges

The Reagan Administration may be on firmer ground when it challenges plans for a fresh allocation of Special Drawing Rights to IMF members. This addition to the reserves of all countries will amount to international painting of the five currencies in the SDR basket at a time when there is no shortage of overall liquidity. Such a cash handout does not satisfy the needed principle of finance with economic involvement any more than the worst excesses of bank lending. It is the sort of "easy money" which the U.S. Government can rightly criticise and which the IMF must certainly avoid.

Embrace

The Reagan Administration is also right when it urges the developing world to embrace the mechanisms of the free market. But its assertion that the developing world should rely on private flows of funds and adopt U.S. tight money policies is hard-nosed to the point of self-delusion. Large parts of the developing world do not qualify for bank loans. Economic policies designed to deliver a therapeutic shock to inflated, and inflationary, expectations in highly developed economies are not relevant to the poorest countries of the world.

The IMF and the World Bank may have their shortcomings, but they are at least attempting to combine Western economic experience and oil surpluses in the financial problems of developing countries. In this project both institutions deserve Western support.

New curbs on share raids

A CHANGE of ownership is an event of major significance in the life of a company. Apart from its shareholders, the employees, the local community and sometimes even the nation as a whole, can have a legitimate interest in who owns a business.

So there has been general disquiet about a number of recent cases where effective control of a public company has been secured in a matter of hours by heavy purchases of shares on the London Stock Exchange. Having announced their terms, bidders have stormed straight into the market and persuaded institutional shareholders that their best interests lay in taking cash immediately rather than waiting for the uncertain outcome of the bid. As a result, the victims have been left with no chance to debate the industrial or financial merits of the takeover.

Free market

The Council for the Securities Industry, which has a non-statutory responsibility for supervising the behaviour of London's security markets, has decided to curb these raids before they become more widespread. From now on, anyone who has announced a takeover bid will have to wait for a period of seven days before making significant stock market purchases.

This seems a reasonable balance between the interests of the defending company and those of the free market in securities. Given that it is unsatisfactory for control to change as the result of a few telephone calls around the City, the sensible remedy is to slow down the rate at which a bidder can buy a dominating share holding.

It normally takes longer than seven days to produce a full defence document. But as Eagle Star showed when it was raided by Allianz earlier this year, this should be long enough to enable managers to outline their prospects and rally their troops.

However the rules cannot be welcomed with unrestrained enthusiasm. The trouble is that new restrictions on the financial markets have a habit of throwing up almost as many problems as they resolve, and the pursuit of laudable objectives can for various practical reasons produce less than desirable results.

Answer

A lot of people in the City will be poring over the new rules to look for gaps. What happens if there is more than one bidder? Is it reasonable to put a ban on share purchases by the attacking company without imposing a similar check on the associates of the defender? There is a danger that rules will create the need for new rules, until the point is reached when shares will simply be suspended at the time of a takeover announcement, leaving the battle to be fought entirely through circulars to shareholders. That would be most undesirable, not least because the market is a much better guide to the real value of a company than merchant bankers' rhetoric.

Short-term

An answer to the problem lies in the hands of companies and their shareholders. By full disclosure of their financial condition, companies should make sure that their share price reflects as accurately as possible the underlying value of the business. And shareholders, especially the large institutions, need to recognise that ownership involves a measure of responsibility which cannot be fulfilled by shuffling paper around simply to maximise immediate gains. Unless trustees and others responsible for the oversight of investment portfolios stop judging their managers on the basis of strictly short-term performance, all the rules in the world will not prevent the financial markets from being brought into disrepute.

BRITISH TECHNOLOGY GROUP

A marriage of convenience

By John Elliott, Industrial Editor

NEB NRDC

British Technology Group

THE NEB and NRDC's operations have been merged into the British Technology Group. But they will remain separate statutory bodies until legislation is passed, perhaps in the 1982-83 Parliamentary session.

Until then each investment will be allocated to one or other body. This will complicate operations and accountability since the two bodies have different legislative rules and requirements and different forms of funding.

A common 12-man board has been appointed to both bodies and the same 12 people constitute a British Technology Group Council. All 12 are non-executives except for Sir Freddie Wood, chairman, Mr Brian Willott, chief executive, and Dr Jim Cain, deputy chief executive.

Creation of this board structure caused three executive directors of the NRDC to lose their jobs. They have been given new posts. Another 16 top NRDC executives, including one board member, have retired early or been made redundant.

The new management structure is based on separate divisions for making new investments and for operations (monitoring and developing investments). Other specialist divisions handle: "technology transfer" of public sector inventions; small businesses; and regional investments.

Terry Kirk

Sir Freddie Wood: no more "moon shots"

FEW of Sir Keith Joseph's dreams were fulfilled during his two years as Secretary of State for Industry. He did, however, manage to launch the National Enterprise Board on what his political supporters hoped would be a path to oblivion when earlier this year he authorised its gradual merger with the far less controversial and more staid National Research Development Corporation.

Having come to recognise that there is a continuing role for State agencies to play in encouraging the private sector to develop new technologies such as micro-electronics and genetic engineering, Sir Keith sought to satisfy both Conservative Party stalwarts and the needs of industry by approving the merger and the creation of an umbrella organisation called the British Technology Group to cover the two organisations.

The political hope was that the NEB would vanish into the new group and that less would be heard in the future about it and its large-scale and highly controversial businesses such as the Inmos micro chip company, the Nexos office equipment business, and its other smaller investments.

Now, however, it seems as if the NEB's structures, methods and priorities are gaining the upper hand in the new group and will live on, albeit modified, because of the link up. It also seems as if the NRDC's traditional key role of providing a form of finance for specific projects within established companies ranging from ICL and Glaxo to small businesses may be at risk because of a stricter approach to potential profitability.

The Government hopes that what is happening under the joint chairmanship of Sir Freddie Wood, chairman of Croda—who in the 1970s formed the National Bus Company out of separate State-owned companies—will be good for both organisations. The technological strengths of the NRDC are being merged with the more entrepreneurial approach of the NEB.

Eventually a powerful and possibly profit-making organisation may emerge able to encourage industrial innovation and development across a wide spectrum from university laboratories, Government research establishments and individual inventors to small businessmen and large companies.

NRDC staff (there are 220 of them) know that their operations have become rusty and need revamping to meet the requirements of industry and the universities. But they do not understand why the NRDC, which has never been at the centre of controversy since it was set up in 1949 could not have been told to reform itself on its own.

On the other hand the merger is more popular among the 60 staff at the NEB, which has never ad a constant identity or much stability since it was formed in 1975.

The NRDC was originally created because of great concern in the 1940s that enough was not being done to exploit UK inventions — such as penicillin which had been lost to the U.S. during the war. Since then the corporation has built itself a wide-ranging business which includes about 380 development projects and £30m investment associated with the inventions of universities and other public sector organisations and about 320 projects (£44m) in private sector companies. More than half these investments are for £30,000 or less. It also holds 1,800 UK patents and patent applications which it licenses out to interested companies, preferably in Britain.

Its university and similar work — traditionally dubbed "public sector exploitation"— includes one great money spinner—a life-saving family of drugs called cephalosporins. This has earned the NRDC £100m to £120m in royalties in the past 17 years and alone has made it self-financing (and free from political interference). Other significant royalty earners are far smaller—in the past year have included alkali-resisting glass fibre, dental cement, a dust helmet respirator and (the NRDC main money-spinning hope for the future) pyrethroid insecticides. As a result the corporation holds liquid resources of £20m against approved project expenditure of nearly £19m.

But despite its achievements, British inventions have continued to go abroad and the NRDC, while doing a useful job, has not solved the basic problems which caused post-war politicians to set it up. But no-one ever expected too much of it. Even Mr Harold Wilson, when he spoke about its foundations in Parliament as President of the Board of Trade in June 1948 said that, while it would have a scientific and economic purpose, he did "not pretend that it will do anything spectacular to improve the position of inventions and discoveries and research in this country."

Its biggest failure came recently when it did not move fast enough into the field of bio-technology and genetic engineering, despite repeated requests to do so from many official quarters. The NEB eventually stepped into the breach last year and set up a £12m bio-technology project called Celltech in partnership with City financial institutions.

Around the same time, as cash for research has become generally tighter complaints increased from universities that the NRDC was not aggressive enough in searching out their inventions, together with grumbles from companies (usually those refused money) that it was stodgy and bureaucratic. These complaints grew into a clamour which even reached the ears of the Prime Minister when inventors complained at a Downing Street party last year about the rough treatment they had received.

"The NRDC was taking a lot of flak for being too unadventurous and slow" says Sir Freddie Wood who joined the Corporation's board in 1973 and became its chairman in 1979. Last winter he seized on the possibility of a merger with the NEB as relatively easy way of pushing through changes that were urgently needed in both the NRDC's finances and in its organisation (thus incidentally creating an body which he believes might be maintained by a Labour Government).

The NRDC was making too many losses. Its failure rate on its project financing is about 75 to 80 per cent — not much greater than the average for innovation, but enough to chalk up £9.9m of discontinued projects (including about £5m on hovertrain investments) in its 1980-81 annual report published last week.

The crucial cephalosporins income is declining as the drug becomes gradually out of date. Having dropped from an annual peak of about £20m to £14m this year, it is expected to expire by 1986. Then the total inventions' licencing revenue would probably total only £5m to £6m a year—insufficient to cover losses on the NRDC's other activities.

Compounding the problems, a highly effective marketing campaign aimed at bringing in extra business in the past few years generated 161 investments last year, taking £10m authorised expenditure. This raised the overall portfolio from 400 to 700 projects in three years. The corporation's organisation was consequently seriously over-stretched. (By contrast the NEB has far fewer but bigger investments—59 companies with assets employed of £140m.)

The NRDC was therefore ripe for treatment when the NEB's continual crises came to a head last November with the sudden resignation on personal grounds of Sir Arthur Knight, its chairman.

By then the NEB had been cut back from its original State holding role, losing its responsibility for and Rolls-Royce, and it disposed of most of its stakes in major companies such as ICL, Ferranti, Herbert and Fairey. It had been turned primarily into a venture capital style of organisation interested mainly in various areas of high technology, and was also supposed to help small firms in general, and industry in the depressed regions. Its work was therefore overlapping with that of the NRDC.

So Sir Freddie was given the chairman's job at the NEB as well as the NRDC on the understanding he would merge the organisations. He has does this far faster than anyone (including Sir Keith) had expected at the time—at the expense of a serious slump in morale among the NRDCs staff who are generally older than NEB executives and who had established career patterns.

Where precisely the new organisation goes now is not finally clear—its first corporate plan is about to be prepared.

There will certainly not be any more major State-owned green-field projects in the foreseeable future like Inmos which is being given nearly £100m public funds (£50m via the NEB) and which Sir Freddie describes as "rather like a moon shot which we can only watch and wait to see where and how it lands—you can't interrupt it now." Nor will the Nexos office equipment type of venture, which is believed to have been allocated nearly £30m and is still not secure, be repeated.

There will however be a lot more joint ventures with the private sector costing perhaps up to £3m-£5m with the group hoping to put in often not more than £250,000 to £1m to act as a catalyst. Investments will usually be made where there is technological innovation or an advance in industrial use. A couple of biggish bio-technology projects — one in the agricultural area — and information technology ventures are being prepared and investments in robots and their components are to be expanded.

"The NEB's method of charting out its target areas like information technology and robots will continue, and will operate alongside the NRDC system of looking to see what is being developed in the universities and elsewhere," says Sir Freddie. "But I have great reservations about anyone putting down massive amounts of money to get instant solutions instead of letting things grow organically."

How much freedom it has will however depend on the funds it obtains from the Government and the return it is expected to make when its drug royalties run down. Sir Freddie would like a "dowry" of £100m to £200m from the Government (the NEB receive £30m-£40m a year at present) which could be invested in projects at a rate of say £30m to £50m a year. He would like to produce profits after three or four years to generate new investment funds which would be boosted from sales of successful investments to the private sector.

But this would mean cutting back on the NRDC's special project finance scheme which it believes is unique since repayments are only geared to sales revenue and are cut off after a set period. The scheme could be reorganised to make the entry terms stricter and to produce more income.

But there is a suspicion in the group that senior NEB executives will tend to want to reduce risks by offering smaller companies equity investments in their businesses rather than finance for specific projects, both because that is the NEB way of working and because it can provide a safer investment base.

Sir Freddie admits that the future of the project form of funding for all but the biggest companies is being reviewed but denies it will be abandoned. Its supporters want to persuade him that it is not only unique and especially useful for small companies that do not want to part with equity, but that it is also becoming relatively more important now that equity finance is available from a continually increasing number of City sources. As one executive says, however, "you may just break even on project funding but you'll never get rich."

As a businessman surrounded by a board of non-executives from the private sector, Sir Freddie not surprisingly tends to favour arrangements that will generate profits, attract private sector partners, and which provide the familiar monitoring yardsticks of profit and loss.

But if the primary function of State intervention in industry is to plug gaps left by the private sector and to stimulate activity in areas where the private sector is loth to tread on its own, is such a commercial ambition realistic?

Men & Matters

Esprit de core

"I've lost $100m in the past few weeks," says Steve Jobs, vice-chairman of Apple Computer, counting the cost of the New York stock slump. "But I don't mind, I'm in it for the long terms." And at the age of 26, with his 15 per cent stake in the company still worth $120m, the long term looks bright enough. "We're like General Electric in 1915. Or Ford in the 1920s," he grins.

The bearded university drop-out who sold his Volkswagen minibus to found Silicon Valley's most precocious company four years ago, was in London at the weekend overseeing Apple's $30m investments in Europe this year and planning more.

Jobs doubts whether Apple—which has a plant in Ireland—will be establishing more manufacturing centres in Europe. It is the company's marketing and dealer network that he wants to expand rapidly. About 20 per cent of Apple computer sales are in Europe, with the UK its largest customer there responsible for half that business.

He is eager, too, that more of Apple's computer programmes should be written in the UK. Of its 10,000 programmes, only 400 were produced here.

With his giant rival IBM only recently into personal computers, Apple has 300,000 computers already in use worldwide. "Write a programme for IBM and what is their base? Zero," he says. "Write one for Apple and you make $1m."

Sitting in his hotel room, amid untidy piles of computers and discs, Jobs reflects philosophically on suggestions that there may be some political barriers to his expansionary plans. "The trouble with the policy-makers is that they did not grow up with the technology."

But even when you are a multi-millionaire in your twenties, "there's so much more to be done," he says. "I'm not driven by money though it's nice to have the resources for the company."

His ambition is to bring the size of the Apple computer, which sits comfortably on a desk-top, down to the size of a book.

As for pleasure: "I get my pleasure out of seeing a whole classroom of seven-year-old kids using Apple computers."

Bare market

I hope that the City community will not shrink from a chance to improve UK performance in an unusual area of the visible export business. Playgirl, the American magazine which prides itself on its "candid portrayal of masculine beauty," is holding its first British auditions next month, at which potential pin-ups will be asked to "demonstrate their suitability before the Playgirl team." A "lucky eleven" will appear in an eight-page feature.

Among the names which Playgirl hopes will respond to its summons are a predictable array of sportsmen, pop singers and prime ministerial offspring. But why not a "Eurobondage" spread, say I? Or a team of leading merchant bankers displaying unusual uses of long taps, butterfly spreads and money-market instruments? All applications, correspondence, holiday snaps, etc. should be directed to Playgirl and *not* to this column.

Vin gaffe

Grants of St James's has been embarrassed by an apparent modern miracle in Cardiff.

A customer in a local pub sampling a glass of Nicholas dry white, topped with soda and ice, thought it tasted rather strange. Puzzled, he sampled the same vintage in the hotel next door. Far from being an impertinent little wine, he suddenly realised, it was downright outrageous. It was water.

Grants has now hastily withdrawn a whole consignment for analysis. The results will be available this week. But some think that the once powerful Welsh temperance has finally discovered the ultimate weapon — a wand which turns wine into water.

On his Marks

One of the many preliminary sideshows to this year's IMF meeting in Washington was a very private dinner to the "phantom five" group of finance ministers on Friday night. The group, which brings together ministers from Britain, France, Japan, U.S. and West Germany, is so self-effacing that Whitehall officials were instructed to "have no knowledge" of it when it met in Britain last April.

The engagement fell at an awkward time for Germany's Hans Matthoefer, as he was already committed to a parliamentary debate in Bonn that day. The lateness of the hour meant that when he finally arrived at Washington airport, he was forced into the extravagant course of hiring a helicopter to speed him to the meeting. Oh, and the debate which had prior claim on his attentions? A vigorous session on German budgetary cutbacks.

Birth right

Among the many achievements which have distinguished the life of Lord (Lew) Grade, it is recorded that he had the good fortune to start off on the right foot. His birthday is noted in Who's Who, as falling on December 25, 1906—making him 74, albeit getting younger every day.

Rather a shock, then, to be flicking idly through the records of the Associated Communications Corporation filed at Companies House and to discover that, as far as that institution is concerned, his birthday falls on January 23, 1906. From Capricorn to Aquarius, not quite so memorable a date and pushing him already over the line into the final quarter of his first century!

Not so, says Grade. The discrepancy arose when his parents arrived in Britain with a very limited grasp of English, the wrong date was put on to his passport, and thus enshrined, reproduced itself on his official company records. But the correct date, precise, eternal and immutable, is December 25.

Musical shares

The floral dance seems to have given way to the blues down in Cornwall, to judge by the lament issuing from St Piran mining subsidiary South Croftys staff magazine.

What with the recession, the price of tin and Jim Raper's arguments with the Stock Exchange over the group's share quotation, the company's resident song-writer moans that the staff ". . . are in a daze, Optimism is difficult to raise, Trudging along from day to day, Waiting for redundancy to come their way."

The ode rhymes on through its mournful couplets, but makes a brave bid in the last few lines to raise hopes of "a much brighter day, when . . . South Crofty will be here to stay."

Smelling sweet?

Will it be "Pebble"? Or "88"? The waiting will be over on October 19 when an anxious world will learn just what new name British Oxygen — whoops, BOC International—has chosen, the better to express its corporate personality. Not just a name, either — a "livery," too, I gather. The gasman cometh.

Last straw

"Secretive? If you gave her a needle, she would build a haystack around it!"

Observer

FINANCIAL TIMES SURVEY
Monday September 28 1981

Arab Banking and Finance

As its financial institutions grow in size and sophistication the Arab world, and in particular its oil-rich states, is becoming a major force in the management of international money flows. This survey examines the changing scene in detail.

Greater involvement in task of managing oil wealth

By Richard Johns, Middle East Editor

ESTIMATING and forecasting the financial surplus of the oil producing states has become something of a discipline in its own right since the explosion of prices in the last quarter of 1973. It has hardly proved to be an exact science, however.

Calculations of the unspent assets (after official transfers) accumulated by members of the Organisation of Petroleum Exporting Countries (OPEC) in 1980 varied from $95bn to $121bn. Early this year the Organisation for Economic Development and Co-operation (OECD) projected a surplus for 1981 of $109bn. By mid-summer the First National Bank of Chicago put the figure at $87.5bn.

Downward revision of earlier assumptions has been made necessary, of course, by a fall in oil production far greater than had been anticipated and a halt to the escalation of prices. Nevertheless, the transfer of resources remains very substantial and could bring total accumulated Opec assets to as much as $350bn by the end of the year.

According to present indications no very marked decline seems in prospect next year. The International Monetary Fund (IMF), for instance, foresees a 1980 surplus of $96bn (before official transfers) falling only to $80bn in 1982.

The so-called Opec surplus, meanwhile, is more exclusively Arab than ever. In 1980, when revenues enjoyed by members of the producers' club as a whole rose, and all of them were in profit, about 90 per cent of it probably accrued to Saudi Arabia, Kuwait, Iraq, Libya, the United Arab Emirates and Qatar. In 1981 Saudi Arabia and Kuwait by themselves will account for about the same proportion.

This year Libya's exports have been hit by the market slump. Iraq's has dropped to rather less than one-third of the level before the outbreak of the Gulf conflict.

The proportion of the total accounted for by Saudi Arabia and Kuwait becomes, almost remorselessly, larger by the year. By the end of 1981 — according to the estimates of Occidental International Corporation and not forgetting the vagaries of forecasting — Saudi Arabia could have at its disposal foreign assets worth as much as $175bn and Kuwait $76bn. It is reckoned that Saudi Arabia's income could be running at a rate of $17.5bn and Kuwait's at $7.6bn.

Just how great is this concentration of wealth can be seen from the fact the international liquidity of all the industrialised countries at the end of May this year amounted to the equivalent of $255bn, only marginally more than the possible foreign assets of the two oil-producing states.

The consumers' response to the most recent surge in oil prices, by way of conservation and the development of alternative sources of energy, has been such as to cause concern to some producers, not least Saudi Arabia, about long-term demand. For the indefinite future, however, there seems little prospect of rectifying the payments imbalance between the oil exporters and importers.

Whatever the pessimism within Opec in the face of the present market slump, the World Bank has recently predicted a rise of 3 per cent in real terms for the price of oil each year during the present decade. The increase could be very much higher if a drastic shortfall in supplies occurs about the middle of it.

Those six Arab oil producers which accounted for the bulk of the Opec surplus could cut their production by 50 per cent, its latest World Development Report observed. Evidently it was prepared before the full impact of the drop in Opec production was felt.

Nevertheless, as the International Energy Agency has not ceased to remind consumers, the balance between supply and demand is still a fine one. Dependence on the willingness of Saudi Arabia to produce more oil than it requires remains a sobering fact, especially when the extent of the criticism of the policy by the conservationist lobby is considered.

In the 1974-78 period the interest earned in real terms from the oil producers' investments in the West was low and perhaps even negative. They have every reason to keep as much of their wasting resource in the ground as possible. In this situation the need for financial instruments, preferably issued by the main international agencies concerned with recycling and development, had become imperative. The requirement has not in any way been lessened by the recovery of the dollar, the currency on which of necessity some 70-75 per cent of surplus assets are held.

Saudi Arabia requested an inflation-proof instrument when the IMF's special supplementary facility named after Dr. Johannes Witteveen, the last managing-director of the IMF, was established six years ago. Finally, an important and promising precedent was set under the agreement reached in March whereby the Kingdom undertook to lend the equivalent of 4bn Special Drawing Rights (SDRs) in each of the next two years. Under this unique deal the interest on the loan will be based on the market rates in the five largest industrialised countries and Saudi Arabia has a convertibility option allowing it to discount its commitments on the open market at any time.

As a result, the IMF was guaranteed a large part of its borrowing requirements for the next two years. It should, on the face of it, be possible to attract a greater volume of petrodollars for conversion into SDRs. A recent study by an economist at the Organisation of Arab Petroleum Exporting Countries concluded that investments made in them in the 1974-79 period kept their value better than those in dollar instruments and in gold. But the author commented pointedly that since SDRs were created to assist with international liquidity and finance balance of payments deficits they were "not in the interest of surplus countries."

The IMF sought but has not so far obtained another SDR 1bn from Kuwait and the United Arab Emirates. In finalising its agreement with the Fund, Saudi Arabia was prepared to let lapse the question of observer status for the PLO (Palestine Liberation Organisation). But the issue is by no means dead as far as the other Arab oil producers—and therefore the Kingdom — are concerned. Generally they are unenthusiastic about international recycling mechanisms, preferring their own institutions or bilateral arrangements, both for disbursing aid and making investments.

Security of investments, the abolition of impediments to them in the industrialised world and the question of the erosion of their value figure prominently in the report of Opec's Ministerial Committee on Long-term Strategy.

Kuwait has by far the greatest experience and sophistication in deploying its funds for the purchase of real assets as part of its strategy of building up an alternative source of income for future generations. At the end of last year it had some $3.7bn in equity portfolios in the U.S. and was believed to have British shares worth £1bn or more.

Yet Kuwait complains not only of the erosion in the value of investments through inflation and currency depreciation but also about "the low capacity" of the industrialised countries' markets "to absorb funds relative to the volume of funds available", to quote Mr Abdul Rahman al Attiqi, the Finance Minister, who retired earlier this year. The state has for some years been interested in investing in the developing countries and has participated in a number of viable projects in this area but has found itself faced with a number of obstacles, not the least ideological, bureaucratic and legal problems.

Just as in 1974-75 the surplus Arab oil producers confounded fears about volatile flows of hot money, so over the past two years their deployment of funds has been generally condusive to the health of the world's monetary system. The IMF has calculated that nearly a tenth of their total cash surplus, or about $10bn, was disposed in 1980 in the form of grants and loans to other developing countries and contributions to regional or international aid agencies.

Last year net disbursements of official development aid by

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ARAB BANKING II

DEPLOYMENT OF OPEC'S IDENTIFIED FINANCIAL SURPLUS
($bn)

	1974	1975	1976	1977	1978	1979	1980 (provisional) 1st half	1980 (provisional) Q3	1980 (provisional) Q4	Total 1974-80
U.S. (domestic)	11.53	7.97	11.02	7.40	0.26	7.06	9.60	2.40	2.20	59.44
Bank deposits and portfolios	10.83	6.27	8.12	7.00	−0.04	8.36	8.90	2.10	2.00	53.54
Other	0.7	1.7	2.9	0.4	0.3	−1.3	0.70	0.3	0.2	5.90
UK (domestic)†	7.2	0.2	−1.1	0.7	0.2	2.4	2.5	0.7	−0.4	12.4
Sterling bk deposits	1.7	0.2	−1.4	0.3	0.2	1.4	1.3	0.2	−0.1	3.8
Other	5.5	0.0	0.3	0.4	0.0	1.0	1.2	0.5	−0.3	8.6
Bank deposits in other countries	22.8	9.1	12.1	10.6	3.0	33.5	22.5	12.2	6.3	132.1
UK Eurocurrency bank deposits	13.8	4.1	5.6	3.1	−2.0	14.8	6.0	5.3	3.5	54.2
Other or	9.0	5.0	6.5	7.5	5.0					
Other industrial countries						18.7	16.5	6.9	2.8	77.9
Intnl. organisations and gold‡	3.5	4.0	2.0	0.3	0.1	−0.4	3.4	0.3	1.2	14.4
Others (a)§	11.0	12.4	12.2	12.8	10.4					
Other (b)						18.3	12.1	6.5	4.7	100.4
Other investmts. in other industrial countries¶						8.7	8.1	4.7	3.9	
Loans to developing countries						9.6	4.0	1.8	0.8	
Total (identified)	56.03	33.67	36.22	31.80	13.96	60.86	50.10	22.1	14.00	318.74

* Besides identified direct investment, includes prepayment for U.S. exports and changes in non-bank liabilities. † Excluding foreign currency deposits. ‡ IMF and IBRD. Also includes holdings of gold. § As defined by the Bank of England, consists of special bilateral facilities and other investments in countries outside the U.S. and UK—including equities, property holdings, etc.—plus loans to developing countries. ¶ Mainly loans and holdings of equity.

Sources: U.S. Treasury Bulletins and Office of International Banking for U.S. data; and Bank of England Quarterly Bulletins for all other data. Bank of England data excludes changes in liabilities arising from net borrowing and inward direct investment, and does not account for changes in credit given for oil exports. Compiled by Wharton Middle East Economic Service.

Significant changes in oil surpluses investment

WEALTH OF THE DOMINANT TWO
($bn)

Foreign Assets	1972	1977	1978	1979	1980	Jan.-June 1981	Est. End-1981
Kuwait	2.4	21	27	49	65	72	76
Saudi Arabia	2.3	64	61	78	125	150	175
Total	4.7	85	88	127	190	222	251
Investment Income	**1972**	**1977**	**1978**	**1979**	**1980**	**Jan.-June 1981**	**Est. End-1981**
Kuwait	0.410	2.1	2.7	4.8	6.5	n/a	7.6
Saudi Arabia	0.125	4.4	6.4	7.8	12.5	n/a	17.5
Total	0.535	6.5	9.1	12.6	19.0		25.1

Source: Occidental International Corporation.

THE ARAB surplus from oil revenues becomes, by the year, proportionately more concentrated in the hands of two producers. By the end of 1980 Saudi Arabia and Kuwait dominated the figures for the net foreign assets of the Organisation of Petroleum Exporting Countries, with Saudi Arabia's assets alone totalling some $150bn by June this year, going by the highest estimate.

This compares with a total of $250bn for the collective surplus of six main Arab oil exporters at the end of 1980, or 73 per cent of all of Opec's foreign assets. Since then Saudi Arabia's dominant position has been strengthened even further. Right up the abortive Opec meeting in Geneva in August Saudi Arabia was producing 10.3m barrels a day (b/d) of crude or 43 per cent of total Opec output while other Arab producers reduced their production.

Of the six Arab members of Opec with the largest surpluses—Saudi Arabia, Kuwait, Iraq, UAE, Libya and Qatar—two have seen their oil revenues drastically cut. Iraq's war with Iran, which started in September, 1980, cut its oil output from 3.5m b/d to a current level of just under 1m b/d. Libya's customers for oil have also cut back drastically on their contracts because of the high price of the North African crudes.

In a soft oil market, the Arab oil surplus by the end of the year will be somewhat lower than expected, with the bulk of it accruing to Saudi Arabia. This makes exact figures difficult to forecast because of the difficulty of knowing how long some of the oil exporters are willing to see output slump without cutting their prices.

It is possible to be a little more precise about the surplus before the drop in demand and high Saudi output seriously affected the production of other Opec members By the end of last year the gross foreign assets of Opec as a whole were $385bn compared to $190bn at the end of 1978 according to the Wharton Middle East Economic Service.* Some three-quarters of the total was accounted for by Arab members of Opec. The figure does not include the private sector's foreign assets which are estimated to account for some 15 per cent of the total.

Precipitous

Last year alone the surplus of the Middle East Opec members was estimated to be $92bn, with Saudi Arabia accounting for almost half of this, according to the calculations of the First National Bank of Chicago. In 1981 initial estimates put the surplus at $70bn but in fact the drop is likely to be more precipitous because the oil glut has forced Libya, Kuwait and Algeria to make fairly drastic reductions in their exports.

Saudi Arabia's oil minister, Sheikh Ahmed Zaki Yamani, now suggests that oil prices may drop below the Saudi official level of $32 a barrel. It is by no means clear that the Saudi compromise offer of $34 a barrel for all Opec marker crude will still be on the table when the organisation meets again in Abu Dhabi in December. Thus a number of Opec states in the Arab world will be unable to increase their surplus assets and in the case of Libya will probably start to draw them down.

Although hit by falling prices Opec states have benefited from the rise in the dollar in which oil is valued. As a result the price has risen in real terms this year substantially benefiting the purchasing power of the oil producers. The strengthening of the dollar also has clear benefits for the surplus states since the most of their assets overseas are in dollar denominated instruments.

Saudi Arabia is the king-pin of the Arab surplus. In 1972 its total foreign assets amounted to only $2.3bn. It is now likely, to be adding to its accumulated foreign assets by more than that amount every three weeks. Investment income by the end of 1981 should total $17.5bn for Saudi Arabia and $7.6bn for Kuwait, according to Dr Odeh Aburdene, vice president of Occidental International Corporation.

Even with increased budgets there is no way that Saudi Arabia can absorb its oil revenues, even though the budget for this year is $89bn and $285bn is to be spent on the Five Year Plan for 1981-85. Oil revenues will be "at the very least equivalent to twice our annual foreign exchange needs," says Saudi Finance Minister Sheikh Mohammed Aba al-Khail.

Revolution

This is different from the situation in 1978-79 when slight fiscal deficits were recorded. At that time Sheikh Aba al-Khail said that "the maintenance of a large surplus is not consistent with our economic policies." The Iranian revolution and the renewed surge in oil prices changed its position.

The caution of Saudi and other Opec oil exporters which developed during the 1970s continues, though the last year has seen greater diversification. Even so about half of all Opec investments are in bank deposits, with most of those denominated in dollars held outside the U.S., though it has led to caution and conscious effort to diversify.

Out of an *identified* financial surplus accumulated between 1974 and 1980 of $319bn, 43 per cent was deposited in the Eurocurrency market and in banks outside the UK and the U.S. Another $100bn or 31 per cent was held *outside* banks in countries other than Britain or the U.S., mainly loans to industrialised and developing countries, as well as concessional loans and portfolio investments. The third most important category is the $60bn or 19 per cent of investments and other placements by Opec in the U.S.

Saudi Arabia has always pursued a responsible policy of not shifting funds in response to currency fluctuations. The very size of the sums with which it is dealing would make such an operation difficult even if the Government wished to do so. This is not true of all the other Arab Opec members. The strengthening of the dollar in the first half of 1979 and of sterling last year had some influence on investment managers, but the bulk of the surplus accumulated in the 1978-80 period has gone into the Eurocurrency markets. But the proportion has been declining rapidly in 1981.

A recent study on the disposition of the Opec surplus by the Wharton Middle East Economic Service shows why the Middle East oil exporters as a group last year reduced their deposits with banks in the U.S. (and add only relatively negligible amounts to accounts in their major foreign branches) but, at the same time, sharply increased non-bank portfolio investments in the U.S.

It looks as if the attitudes of Saudi portfolio managers diverged here from those of Kuwait and Iraq. Even before the U.S. diplomats were seized in November 1979 and the freeze on Iranian assets imposed, investment managers from the main Arab surplus states were already diversifying their portfolios away from the U.S. The freeze merely accelerated this trend.

In 1980 Saudi Arabia was already investing more of its surplus in the currencies of West Germany and Japan. Last year the Saudi Arabian Monetary Agency (SAMA) lent $3bn to the West German Finance Ministry and together with other financial institutions bought government paper worth about $2bn. In January this year Saudi Arabia agreed to buy another $3bn worth of government notes.

Last year also saw much increased interest in Japan among Middle East Opec members which had invested little there up to the end of 1979. Some $10-$11bn, both bank deposits and stocks and bonds, was invested by the Middle East oil exporters in 1980, though their enthusiasm may have waned somewhat this year.

They also made Euroyen deposits worth some $3-4bn. It is particularly interesting that Iraq and Libya, the Arab surplus states most likely to be nervous following the U.S. freeze on Iranian assets, had invested $2.6bn and $1.7bn respectively in Japan in the first nine months of 1980.

The position of these two of the Arab members of Opec has changed dramatically since last year. Iraq's oil exports have been hit by the war with Iran and it can no longer sell oil from the Gulf. Its present oil exports are about 970,000 b/d. At the same time its expenses have increased because of higher military expenditure and the Government's decision to boost the development and import programmes.

The Iraqis have always been extremely secretive about the size of their reserves but at the beginning of the war last year they are believed to have totalled about $30bn. It is equally difficult to tell how far they have been run down but they are now thought by bankers to have fallen to $18bn or less, though this could prove to be an underestimate.

The exact figure depends partly on how much Iraq is really receiving in loans from other Gulf oil producers. Such loans, which are certainly over $6bn, include $2bn from Kuwait and an unknown amount from Saudi Arabia. No doubt more will be forthcoming from Riyadh if the war continues and the Iraqis are forced to dip deeper into their reserves. But the hard line which the Iraqi Oil Minister, Mr Tayeh Abdel-Karim, pursued at the last Opec conference in quest of a high price for oil suggested that Saudi Arabia's financial commitment to back Iraq was very much less than total. There are even rumours that the Iraqis may soon resort to commercial borrowing on the international market.

Libya's problems are of more recent origin. The high price of its oil led to a rapid decline in its oil exports in mid-1981 as companies refused to renew their contracts. The country is also coming under increased political pressure from the U.S. By early this month oil exports had dropped to about 600,000 b/d compared with 1.8m b/d in April. Cuts in development spending and presumably some draw down on reserves, estimated to be worth $17bn at the end of 1980, looks inevitable.

For political reasons the rulers of Arab states have always been keen to ensure that their investments overseas have a low profile. This is completely the opposite of the spectacular investments such as Kuwait's acquisition of St Martin's Property Corporation. Saudi Arabia, in particular, keeps a low profile. Kuwait, however, has become less sensitive about the extent of its holdings being known.

The Governments of both Saudi Arabia and Kuwait have said that they want generally to limit their holdings of the equity of any U.S. company to below 5 per cent. Saudi Arabia is now placing somewhat more emphasis on corporate stockholding. They have also been buying debt placements by such companies as AT & T, IBM, Texas Utilities and GM. Earlier this year the British merchant bank Robert Fleming reached agreement with SAMA to manage a substantial portfolio of Japanese equities. It is a little surprising, however, that last year Opec investment managers showed a preference for the U.S. bond market, rather than the stock market.

Equities

Kuwait has traditionally played a rather more forward role than Saudi Arabia in buying equities. The Kuwait Investment Office (KIO) in London, established in 1962, was estimated to have $2,350m in equities and property in the UK at the end of last year. Kuwait has also been active in the West German stock market, where it purchased 14 per cent of Daimler-Benz as long ago as 1974 and 25 per cent of Korf Stahl steel company in 1978. The KIO has also been a long-term investor in Japanese equities, with large shareholdings in such companies as Mitsubishi Electric Corporation, Toshiba and Hitachi.

Overall there have been three very significant changes in the Arab oil surplus since the second surge in oil prices was provoked by the overthrow of the Shah. First, there has been the sheer growth in size of Opec funds. Second, an increasing proportion of these is held by Saudi Arabia because it maintained its oil production at a very high level at a time when other Arab oil producers cut theirs.

Third, development in the disposition of the Opec surplus has been the shift away from the dollar over the past year and a big drop in the proportion of the surplus placed in bank deposits.

After the shock of the sudden inflow of vastly increased oil revenues in 1979 and early 1980, the trend has been towards diversification, mostly notably in Japan and West Germany.

* *Disposition of the OPEC surplus, Wharton Middle East Economics Service, $20.*

Patrick Cockburn

Arab banks seek wider world role

RECYCLING THE SURPLUSES

Until recently the task of recycling oil surplus funds fell very largely to Western financial institutions. Now the Arabs themselves are ready to play an increasing part. Articles on this page review this trend in operations.

IT IS remarkable until how recently the role of Arab banks in the recycling process remained questionable. The evident shortcomings of a nascent banking sector and the innate convertism of the Gulf's oil surplus states suggested until the end of the 1970s that physical proximity to so much Opec wealth was going to prove more frustrating than advantageous for the banks of the region.

Nowhere was this conclusion more pointed than in Bahrain. The dramatic growth of its offshore banking industry was one of the major success stories in the boom years of the Gulf's modernisation after 1974. But the factors behind its growth did not include the one most often cited at the outset—easy access to the state surpluses of the oil exporters.

These deposits continued to be channelled directly into the major commercial banks of the West. Placing their surplus dollars anywhere less secure, as Arab Finance Ministers and central bankers repeatedly explained, would incur unnecessary risks and be incompatible with the obligation owed to future generations. The day might come when Arab institutions could take their place alongside Western banks as trusted depositaries—but it was not an imminent prospect, or one susceptible to political rather than commercial priorities.

Today the region s witnessing a subtle but quite perceptible shift of attitude. Arab banks are poised [illegible] role far sooner than expected—and in some cases have already begun to do so.

It would be misleading to stress too much the political nature of this change. It is in large part an acknowledgment that the progress of the region's indigenous banks has outpaced expectations. There are sound commercial reasons for seeing them play a direct recycling role earlier than envisaged.

Not the least of these is their success in building on what might be termed their indirect recycling role—that is to say they have thrived on the natural banking business generated within the region by the domestic spending of the surplus states. From this base they have expanded into international finance, drawing for their funds on the global inter-bank market and so playing a significant part in the recycling of many of those oil revenue dollars to which direct access has been denied them.

These are the activities which have fuelled the growth of of Bahrain's off shore banking sector. They have lifted to prominence many Arab banks, both in Bahrain and elsewhere in the region. League tables published by Euromoney last month listed the foremost international banks in terms of the number of Eurocurrency syndicated credits for which they acted as lead managers in the first half of 1981. The top fifty included four Arab banks, which together had brought credits worth $2.65bn to the market—a tiny figure in the total recycling picture but a [illegible] contrast to the first half of 1980 when only one Arab bank crept into the top fifty with credits worth $181.7m.

Other factors too suggest this recycling apprenticeship will lead to more pressure for direct patronage before too long. Intense competition in their domestic markets is an important motive pushing National Commercial Bank, based in Jeddah, the National Bank of Kuwait, the National Bank of Abu Dhabi and others into setting up Western branches and pursuing a greater share of the international market.

They already enjoy some powerful advantages, notably youthful loan portfolios with ample room to accommodate borrowers, both sovereign and corporate, whose names have perhaps grown overly familiar to the West's major commercial banks. Many Arab bankers see Opec deposits as a potential source of huge additional strength for their institutions.

They point to the under-capitalisation of those Western commercial banks as a further justification for switching at least a small portion of the deposits their way. This begs the question of whether the Arab banks are themselves sufficiently capitalised.

The first wave of Arab banks in the earlier 1970s, chiefly comprising Arab-Western consortia like UBAF and BAII, certainly had capital bases too small to allow any direct recycling role. But it is a critical feature of the newer Arab banks that abundant capital resources have been made available to many of them by their government shareholders. Banks like Gulf International Bank, Saudi Investment Banking Corporation, Saudi International Bank and Arab Latin American Bank have all seen sizeable capital increases in the last year. Kuwait, Libya and Abu Dhabi have given Arab Banking Corporation an authorised capital of $1bn.

The Opec states' willingness to provide this capital is seen by many as a first step by them towards the total integration of the Arab banks into the recycling process—a first step undoubtedly motivated by political as well as commercial considerations.

How far the political motive extends to a greater regard for the borrowing needs of the Third World—implying a greater readiness by Arab banks to meet them—is a delicate point. It might be a desirable contribution to international stability were Arab banks indeed to discover criteria of creditworthiness acceptable to them if less apparent to Western bankers.

But this is exactly the role which central bankers like Mr Ahmed Abdullatif of the Saudi Arabian Monetary Agency spend much of their time in front of microphones castigating as a figment of the West's imagination, the product of wishful and muddle-headed perceptions about the moral obligations on oil wealth. Arab banks must apply the same criteria as their Western competitors towards all borrowers. To do otherwise would set back their case for receiving Opec deposits.

Arab banks' lending to non-oil developing countries is none the less a conspicuous feature of their expanded activities. According to Morgan Guaranty Trust's World Financial Markets, Arab banks were lead or co-lead managers in nearly one-third of the publicised Euroloans to this sector in the first four months of 1981 and provided 12 per cent ($1.3bn) of the total funds lent to it by the banking system.

Other political motives are less contentious and widely aired. They include in particular the need to diversify bank outlets for Opec funds—much discussed in the aftermath of President Carter's freeze on Iranian assets in U.S. banks—and a general pursuit of those economic activities like banking and petrochemicals which appear logical extensions of the oil industry.

Finally, there is a third recycling channel which, though far less important than deposits in quantitative terms at least, can also offer Arab banks a significant role—the direct investment of Opec surpluses overseas.

The management of investment portfolios for both the public and the private sectors of the Gulf remains to date very largely restricted to Western banks or else, in the case of state portfolios, governmental agencies like the Kuwait Investment Office or the Abu Dhabi Investment Authority. Only the investment banks of Kuwait—the Three Ks—have been given significant assets to invest and the size of their portfolios has not grown much in recent years.

Probably the pattern of events here must follow that sketched in the commercial banking sector. Successful Arab banks will aspire to some control of Opec's invested assets. To achieve it they will first have to establish their competence in the management of that portion of the assets which passes indirectly to them, that is to say, via the private sector. Given the existing constraints on their management capabilities, this development still seems some way off—but there is no reason to doubt its approach.

Duncan Campbell-Smith

Shift in Western channels

THE PAST 18 months have witnessed a series of remarkable and somewhat paradoxical trends in the relationship between Arab financial institutions and the Western banking system.

At a time of unprecedentedly high U.S. interest rates and extreme strength of the dollar, the big Arab petroleum depositors have been diversifying their holdings further away from the American currency and placing increasingly large investments in non-bank markets.

Put simply, the wealthy Arab countries have been neglecting the chance of making short-term gains by keeping their surplus oil revenues in what during the past 18 months has been the most profitable investment instrument — short-term dollar deposits. The oil states have instead been concentrating more on the longer-term strategic goal of bringing their investment portfolios into better balance.

A few recent statistics illustrate the strength of the trend. In the second quarter of 1981, according to the Bank of England, the oil exporters (dominated by Saudi Arabia and the other big Gulf producers) placed only 27 per cent of their identified deployed cash surplus in bank deposits (mainly in Eurocurrency deposits in the UK).

Proportion

This proportion was down from 36 per cent in the first quarter. It compares with 54 per cent in 1974, after the first oil price increase, and 69 per cent during 1979.

The latest report on banking from the Basle-based Bank for International Settlements (Bis) illustrates the extent to which currency diversification has taken place. In the first quarter of this year the proportion of dollar placements out of total new Opec deposits with the international banking system fell to an unusually small 40 per cent. The Bis suggests that "at least as concerns their bank deposits, the Opec countries' investment pattern was, if anything, a stabilising influence on the exchange markets during the first quarter of 1981."

The Bis records that as of March 31 this year the dollar made up only 65 per cent of total Opec deposits of $125bn in the main European banking centres. This compares with a proportion of 72 per cent when the deposits totalled $60bn at end 1977.

There are many reasons for the shifts that have taken place since the aftermath of the first oil price increase in 1973-74, when the Arab oil producers generally stuck to a strategy of keeping most of their surplus proceeds in dollar bank deposits (along with a small amount of sterling investments, reflecting the pound's residual role in oil payments).

The dollar is still the transaction currency for the overwhelming share of oil payments. But the oil states have followed a conscious strategy during the period of dollar strength of buying up alternative investments—particularly in D-marks, Japanese yen and Swiss francs—at a time when these currencies have been looking relatively under-valued.

Not only have institutions from the Saudi Arabian Monetary Agency downwards made large purchases of D-marks and yen-denominated bonds issued by the German and Japanese governments and other issuers. They have also taken advantage of the loosening of exchange restrictions in Germany, Japan and Switzerland to build up their local currency bank deposits in the three countries. (The same applies to the UK, which has seen a large inflow of Arab funds into sterling bank deposits in London). Middle East depositors have also become important participants in the fledgling market in Special Drawing Right deposits.

The decreasing importance of international bank deposits vis-a-vis other investment instruments reflects a number of factors. First, many of the large banks with traditional relationships with Arab countries — particularly American and British institutions—have been wary of taking on greater deposits from Opec nations. They already have a large share of the oil producers' accumulated foreign assets and wish to avoid over-concentration, especially when the lending side of international banking has been becoming less profitable and more fraught with risk. Such banks during the last 18 months have at times offered Opec depositors interest rates below market levels in a bid to divert them to other institutions.

Opec depositors are similarly preoccupied with the risks of placing too large a share of their funds in individual banks and geographical areas. This applies to all the big Eurocurrency depositors from the main Arab countries — SAMA, the Kuwait Investment Office, the Abu Dhabi Investment Authority, the Libyan Arab Foreign Bank, the Iraq Central Bank and the Qatar Ministry of Finance.

Such reasoning has prompted these investors not only to widen the number of banks and the geographical areas with which they deal (placements with Comecon banks and in less well regulated "offshore" banking centres like the Caribbean and Far East have increased, for instance).

Persuaded

It has also persuaded them to place increasing amounts in other forms of investment like bonds, equities, property and precious metals.

The entire diversification process is also an important part of the Arab move to set up their own institutions which can play a direct role in the international banking system. According to Morgan Guaranty, Arab banks' lead-manager share of Euromarket syndication has been around 10 per cent during the past three years.

An increasing share of their credits is directed away from the traditional area of other Arab borrowers towards non-Opec countries (particularly those which produce oil) such as Mexico, Brazil and Argentina. The commercial Arab banks have, however, been careful to avoid lending to the poorest developing countries which have been hit hardest by dearer oil. Institutions like the Arab Banking Corporation have also become important lenders to some Comecon countries.

This kind of increasing direct lending expertise matches the steps Arab institutions—particularly from Kuwait—have already taken to build up their presence on the international bond market.

A third factor behind the move away from the banking system is undoubtedly the political shock which followed the action by the then President Carter in November 1979 to block Iran's assets in the U.S. Since then Arab countries' holdings of Treasury dollar securities have increased markedly, showing that the move certainly fell far short of totally unhinging their link with the dollar. But the increased awareness of the political vulnerability of bank deposits has undoubtedly encouraged some countries (above all the obvious candidates, like Libya, with poor relations with the U.S.) to place more emphasis on discreet and anonymous investments outside the banking system.

Deposits

Since the end of 1979 Opec nations have actually reduced their bank deposits in the U.S. As well as reaction to the Carter move this also reflects the lower level of interest rates available on domestic dollar deposits compared with those on the Euromarket. (The situation may change once New York banks start to offer Euromarket rates with the establishment of international banking facilities in October).

More discreet and less well supervised investments through fiduciary accounts in Switzerland, equity purchases in Japan and private placements with major U.S. companies all appear to have increased since then. The slowdown of Euromarket depositing is reflected in Bank of England figures showing that the Eurocurrency deposits of Middle East oil exporters in the main centre, London, rose by only just over $10bn to $50bn, in the 18 months to June last.

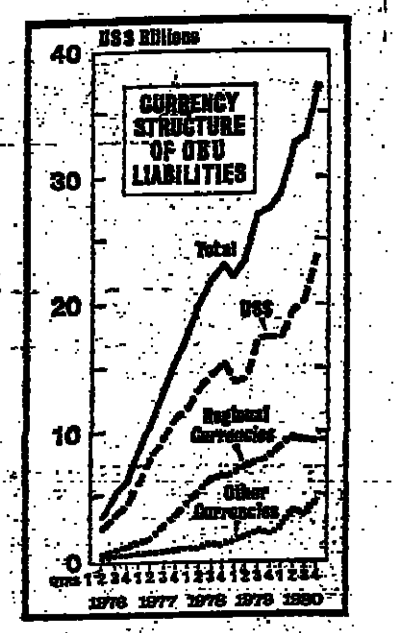
Latest Bis data show that as of March 31 last the "low-absorbers" among Opec (Saudi Arabia, Kuwait, Qatar and the United Arab Emirates) had a total $66bn in deposits outstanding in domestic and foreign currency deposits in the major international banking centres, of which the bulk would be in London.

Total Opec deposits (of which the lion's share is accounted for by the four high-surplus Gulf producers and the other Arab states) came to $162bn, just $42bn up from December 1979—compared with a total current account surplus over the 18 months probably approaching $150bn. Since Opec's total asset position must now be well above $400bn these figures show as well as anything else that the oil states' investment strategy, by taking them increasingly into backwaters outside the main banking channels, is becoming ever more difficult to track down in hard figures.

David Marsh

ARAB BANKING IV

Growing element in Bahrain OBUs



THE NEW element this year in Bahrain's six-year-old offshore banking market is the increasing strength of the Arab component despite the presence of the European majors and U.S. banks of the stature of Citibank, Chase Manhattan and Bank of America.

Numerically, pan-Arab and Arab consortium banks, including the Arab-owned but Pakistani-run BCCI, make up a third of the 63 OBUs (offshore banking units) in the market. But their share of the $42.9bn of assets reported at the end of June is officially put at 40 per cent. The Governor of the Bahrain Monetary Agency (BMA), Mr Abdulla Saif, places the European contingent second, while the original market-makers from the U.S. have dropped back.

A salient feature of the half-year figures, which indicate an annual growth rate of 25 per cent against 35 per cent in 1980 and 16 per cent in 1979, was that 80 per cent of the increase was in U.S. dollars. Regional currencies, now almost exclusively Saudi riyals since the squeeze on external Kuwaiti dinars and UAE dirhams, nevertheless continued to rise. There was also a notable increase in liabilities to Arab countries (from $24.2bn to $28.8bn). So far as this represents deposits rather than contingent liabilities such as letters of credit and guarantees, the surplus over lending to Arab countries was channelled mainly to Western Europe.

Worrying

The reduced role of U.S. banks has been attributed to several factors, including the declining profitability of international compared with domestic operations, and the trend towards diversification of Arab investments into Europe and Japan. There is also a feeling in the market that U.S. banks have been worrying about area risk since the Iranian debacle. But one Bahrain-based manager comments: "There has been no pull-back. We are doing as much business as we've always done."

Another adds that in the present volatile state of the foreign exchange and money markets "people are more cautious." If some international banks have withdrawn from this field, new players have moved in. Brokerage earned on foreign exchange and deposits increased from $7.5m in 1979 to $9.8m in 1980. A further increase is understood to have been recorded in the first half of this year.

Not all the OBUs from outside the region are doing as much business as they might, in the opinion of one Arab banker. Some are simply a link in a world-wide chain, placed there for the convenience of head offices. Others are so hedged about with restrictions that they cannot make the most of available opportunities. Manufacturers Hanover Trust was among those which had to scrap its ban on lending at margins of under one per cent.

There is a distinct impression, too, that the calibre of some of the expatriate executives is declining—an impression borne out by the BMA's decision to conduct a management audit and to reserve the right to reject unsuitable replacements.

In the European group—which includes the Swiss, Dutch and Scandinavians, although Spain's Banco de Vizcaya has withdrawn from active participation—the French banks are all growing steadily, with the latest arrival, Credit Commercial de France, undoubtedly contributing sizeable new assets. The British banks also report a good first half, and continue to adapt to new market situations. NatWest, for example, has just brought out two business development managers to nurture regional client relationships.

Niche

Banks from Malaysia, India, Pakistan, S. Korea, the Philippines and Latin America are busy carving out their own niche in the market, but the big Japanese push is yet to come. No fewer than 14 leading banks and security houses have only a toe in the water as representative offices, leaving the important role of market-maker in yen to the sole OBU, Bank of Tokyo.

Given the scale of Japanese involvement in the region, both in industrial projects and trade, it will surely not be long before a number of these banks enter the market directly.

The performance of the Arab group hinges primarily on Arab Banking Corporation (ABC) and Gulf International Bank (GIB), which in fact accounted for 44 per cent of the entire half-year asset growth of $5.4bn. These two locally incorporated but outward-looking banks have added a new dimension to the market with their ability to attract big international borrowers at a time when regional lending is rather flat and is subject to competition from increasingly sophisticated onshore banks.

So far Bahrain has functioned as an international funding centre with a certain amount of regional lending. The broadening of the asset base is regarded as vital to continuing growth, and all banks in the market, not just Arab ones, will benefit from the development of a strong syndication function.

Although GIB and ABC are pre-eminent, a number of other Arab banks are active. Among the five newcomers to the OBU market this year have been the offshore unit of the National Bank of Bahrain and the Saudi and Kuwaiti-backed United Gulf Bank (UGB), which has a paid-up capital of $75m. UGB has retained Morgan Stanley as advisors on investment policy and plans to offer a full range of investment services through a wholly-owned subsidiary with a representative office in Kuwait.

National Commercial Bank of Saudi Arabia continues to play the role for which it was set up as an OBU in Bahrain—to be a major market-maker in Saudi riyals, based on its strong deposit base in the Kingdom. Most of its SR lending is interbank or to corporate clients in Europe and elsewhere, since domestic trade financing is naturally channelled through the Jeddah head office. There are exceptions, though—notably the Ali and Fahad Shobokshi loan syndicated in Bahrain.

Forward exchange swaps for foreign contractors in Saudi Arabia are not such big business as they used to be, since the Saudi Government decided in September 1979 to pay in dollars for contracts over SR 300m, but NCB is now marketing its services to individual non-Saudi customers up and down the Gulf. Some 45 per cent of the OBU's total operation is denominated in SR, and the same proportion in dollars. Mr Murad Ali Murad, NCB's manager says the OBU has developed its own deposit base in the Bahrain market, especially in dollars, and obtains 30 per cent of its funding from this source.

The other regional major in the Bahrain market is the National Bank of Abu Dhabi (NBAD), whose OBU was set up primarily because of the reserve requirements in its home base. It is purely dollar-based and takes no part in the rapidly shrinking trade in UAE dirhams. The creation of the UAE central bank may have taken over part of NBAD's role as the recipient of deposits from the Abu Dhabi Government, President Shaikh Zayed and the Abu Dhabi National Oil Company, but these are still its prime customers.

The London-based United Bank of Kuwait (UBK) owned by a consortium of nine Kuwaiti financial institutions, has had an OBU in Bahrain since 1976. Despite the restrictions imposed on external lending by Kuwaiti domestic banks, there is still a pool of KD outside Kuwait. In the words of one local banker: "Whenever restrictions are imposed people are paid a lot of money to sit and watch for the loopholes." Kuwaiti funding remains the prime function of UBK and despite the constraints its balance sheet amounts to some KD 35m. A spokesman stressed that UBK had no source of cheap funds and was obliged to play the market on the same terms as everyone else.

Al-Baab (Al Bahrain Arab African Bank) has made its mark in the syndicated lending market, and more will soon be heard of Arlabank (Arab Latin American Bank) which has just taken on ABC and the National Bank of Bahrain as additional shareholders.

Surprises

Arab Bank has continued to build on its long-standing corporate relationships, particularly with Saudi Oger for which it has arranged guarantee facilities of some SR 2bn in the first half of this year. Among the consortium banks, which include BAII, UBAF, European-Arab and Al Saudi Banque, the entrepreneurial talent of Mr Mussain Majadi at Arab-Asian may produce some surprises, following his bid for United City Merchants.

Another interesting venture into the South-East Asian market is represented by the newly-formed Kuwait Asian Bank, a wholly Arab institution bringing together some of the biggest banks and insurance companies in Kuwait and Bahrain, many of which have surplus funds for investment. It has yet to go into operation, but manager Mr John House, formerly of Chase Manhattan and the National Bank of Bahrain, says it will direct its investments towards projects geared to economic development and to trade finance, rather than sovereign risk.

The development of a Eurocurrency dealing centre in Bahrain at the end of 1975 was a direct result of the economic growth that took place in the region following the escalation of oil prices. Major international banks wanted to be close to the sources of oil wealth and in Bahrain they found freedom from corporate, withholding and personal taxes, good air connections, postal and telecommunications services, a time-zone fitting neatly between Europe and Singapore, a stable Government and a society tolerant to foreigners. There was also a minimum of red tape.

Many of the same advantages could have been identified in Dubai, but the Bahrain Monetary Agency was fortunate also in having Mr Alan Moore (now a director of Lloyds Bank International) to introduce what was then called "the offshore experiment," and to establish the style of management based on open dialogue and persuasion which has been so ably maintained by his successor, Abdulla Saif.

There has been an inflow of supporting services which rival centres would now find hard to match — half a dozen money-brokers, together with accountants, auditors and legal experts skilled in loan documentation, many of them in joint ventures with local concerns. Bahrain's experiment is unlikely to be duplicated in the Gulf in the view of Dr Makram Rahal of the Arab Bank, not only because a second-comer would have a reduced chance of success, but because the income earned from OBUs would not be worth while for a rich oil-producing country, although it is very satisfactory for Bahrain.

The financial infrastructure, however, is still a long way from complete. Bankers see a need for a greater diversity of market instruments, such as commercial paper, treasury bills, stocks and bullion as well a great professionalism in the floating of public offshore companies.

Small deficiencies can lead to business being done elsewhere. For example, loans arranged for Brazil require the signature of the notary public, and that official's unfamiliarity with international procedure caused endless delay.

Mary Frings

AMF seeks to increase its funds and activities

THE OPPORTUNITIES for the Arab Monetary Fund (AMF) to make a significant impact on the financial relationships of its 21 member countries are limited by the same political factors which so often bedevil wider Arab co-operation.

The objectives of the Fund when it was set up in 1976 were modelled on those of the International Monetary Fund but with the important additions that it would seek to promote Arab economic integration together with money markets and a unified Arab currency.

It was scarcely the fault of the Fund that the years since its formation have been marked by an impressive display of Arab disunity. While this has not so far prevented a slow but steady expansion of the Fund's activities, it has acted as a check to its pan-Arab aspirations.

The main role of the Fund has been to provide balance of payments support to non-oil producing countries and particularly to those which have not benefited from more politically oriented aid flows. The 1978 Arab summit meeting in Baghdad voted large sums to Syria, Jordan and Lebanon, all of which have had external payments problems, in order to compensate them for President Anwar Sadat's overtures to Israel. Countries such as Sudan and Morocco, which are not in the political front line of the Arab-Israel dispute, have had to rely much more on bi-lateral aid and the assistance of the Arab Monetary Fund.

Efforts

Although this general trend is certain to continue, the AMF is seeking to increase both the funds at its disposal and the sophistication of its technical assistance. Efforts are under-way to increase its paid-up capital to near $1bn. This should be achieved by the year-end. By the middle of this year loans committed by the Fund were fast approaching the 52 per cent of their paid-up capital and this would automatically trigger the requirement for the member states to provide the remaining portion of capital. A Board decision in April allows the members six months to make the payment once the trigger level of loans has been reached.

The capital increase should act as a major spur to the activities of the Fund, especially as officials believe it has come to be accepted by most members as a useful addition to Arab monetary institutions.

Loan ceilings

At the same time the Board agreed to increase the loan ceilings for individual countries from 400 per cent to 500 per cent of their paid-up capital. Assuming that the present call for the outstanding 42 per cent of capital is answered it is estimated that this would allow countries such as Saudi Arabia and Algeria to withdraw up to a maximum of $10.9bn and smaller contributors like South Yemen and Mauritania up to $1.2bn.

It is unlikely that there will be any dramatic increase in the size of facilities made available by the AMF, but officials believe that the trend towards larger loans will be confirmed and anticipate an increase in the number of requests for assistance. Mr AlMunsif Belkhodjah, the outgoing chairman of the AMF council, told the last Board meeting that during 1980 all loan requests had been met. These were put by Mr Jawad Hashim, the AMF chairman, at the equivalent of $146m.

Few countries, however, have yet shown much interest in seeking to take advantage of the more generous facilities the AMF has to offer, probably because of the conditions which can be applied. Egypt, the one Arab country to have become heavily involved with the International Monetary Fund (IMF), did not greatly enjoy the experience and quickly found itself unable to apply the conditions attached to a $720m Extended Fund Facility. Subsequent attempts to revive the facility failed—as, so far, have efforts to negotiate a new and even larger agreement.

The Arab Monetary Fund permits members to withdraw amounts equivalent to 75 per cent of their paid-up capital without conditions, but in order to take advantage of the new 500 per cent ceiling for so-called extended loans there has to be agreement between the fund and individual country on measures and policies to be followed.

Morocco, which has borrowed over $80m from the AMF in separate loans this year, has stressed its hopes the Arab organisation will develop into a substitute for other international monetary organisations "because these bodies tend to interfere negatively in the domestic affairs of developing countries."

There is no clear indication yet as to the extent the AMF would attempt to guide the policies of governments seeking larger longer-term loans and there must also be a question mark over the sophistication and size of its technical facilities for carrying out such an operation. Arab governments have in the past made substantial sums available on an ad hoc basis and with a minimum of conditions. Egypt, again, is the best example, having received $2bn in balance of payments support from Saudi Arabia and three other Gulf states in 1977.

Relaxed

The relaxed attitude Egypt has adopted to the payment of interest on the loan and towards the repayment of capital has been coloured by its suspension from all Arab organisations, including the AMF, but it also reflects a more widespread feeling among the poorer more populous Arab countries that their wealthy oil-producing brothers have an obligation to share out their new riches.

The resentment which has built up in the Third World towards the IMF is well understood at the Arab Monetary Fund. But countries like Saudi Arabia have also privately appreciated the efforts of the IMF to instil greater financial discipline into aid recipients and it is along this delicate path it would most like the AMF to develop.

There is no suggestion, however, that more powerful Arab countries such as Iraq, which has been forced recently to borrow from Saudi Arabia, Kuwait and the United Arab Emirates because of the sharp drop in its oil revenues caused by the Gulf war, should have to avail itself of AMF facilities. In other words the AMF is identified with the economically weaker Arab brethren and it is perhaps with this aim in mind that the Board has expressed its intention of becoming more closely involved in individual development projects—which would suggest a greater affinity to the World Bank rather than the IMF.

Mr Hashim argued strongly along these lines when he addressed the Inter-Arab Cambist Association earlier this year. According to the AMF's calculations the indebtedness of AMF members, expressed as a ratio of loans to GDP, would have increased from 25 per cent in 1975 to 70 per cent in 1985 if present trends continued. It was not enough, said Mr Hashim, simply to exchange one form of indebtedness for another through the utilisation of new mechanisms and the provision of funds to finance deficits. What was needed were intensive development programmes to promote trade within the Arab world and to create financial markets which would assist the flow of funds between the different countries.

The newly-formed Gulf Co-operation Council (Saudi Arabia, Kuwait, United Arab Emirates, Qatar, Oman and Bahrain) might just provide a lead because of the broad similarity of their economies, but it is difficult to be optimistic about Mr Hashim's desire to create a unified currency.

Aid agencies have a relatively simple task compared to that set for itself by the AMF. Only through the widest possible Arab co-operation can the trust be created to allow for a wider AMF role, but in the meanwhile it has to prove its own credentials through the management of larger funds shortly to become available.

Roger Matthews

Oil countries' demand for gold strengthening world bullion price

A RESURGENCE of demand for gold from the wealthy Arab oil producers has been an important factor behind the recovery in the international bullion price during the last two months.

Following the sharp drop from the peak price of $850 per ounce in January last year to around $390 in early August, many of the private Arab investors who had piled into the bullion market in the hope of making quick gains had good reason to feel demoralised. One London precious metal dealer tells of disappointed telex messages sent to him this summer by a key Middle East client addressed to "The big bear"—reflecting anguish at the constant news of falling prices.

Since then the mood has changed perceptibly, with the price regaining the $450 level by mid-September. Demand both from investors and the jewellery industry has picked up as market participants came round to the view suddenly that gold had been over-sold. Some official Arab institutions which emerged as heavy buyers in 1979 and 1980 have also shown revived interest.

Reflecting the solidity of physical demand, particularly from Saudi Arabia, many jewellery fabricating factories in northern Italy — the traditional supplier to the Arab market — are reported to be fully booked until the end of the year. This is a marked contrast to last year, when Italian jewellers were hard hit by a slump in orders and heavy flows of dishoarded metal from the Gulf.

Pattern

The pattern of buying, however, seems to have shifted compared with the latter half of 1979, when many Arab merchants and private sector consortia threw themselves enthusiastically into both the gold and silver market—and had their fingers badly burnt when the price subsequently slumped.

This time the emphasis is far more on trading rather than one-way buying. Investors are careful to prevent their positions from becoming overexposed. A series of quick-moving incursions into the market, buying at the lows and then creaming off profits when the price moves up $10, now seems to be the preferred strategy for many Gulf investors. "The Middle East has learnt that there is money to be made by jobbing," says one Arab bullion dealer in London.

The extent of the turn-round in demand last year is illustrated by figures compiled by Consolidated Gold Fields, the London-based mining finance house. These show that total holdings of carat jewellery in the main Arab countries of the Middle East were hardly changed last year after rising by about 115 tonnes in 1978, when demand was particularly strong during the run-up to the price explosion of 1979.

Swing

When the whole of the Middle East is considered, the swing is even more dramatic. If Turkey and Iran are included, total jewellery holdings in the area rose by 226 tonnes in 1978 and then dropped by nearly 90 tonnes last year, reflecting large-scale dishoarding — in particular from Iran.

This year the heavy dishoarding has stopped. But physical shipments to the Middle East from the main gold trading centres in London and Zurich will still remain modest in comparison to the boom year of 1978. One reason for this is that the market has become a great deal more speculative and geared to short-term profits. To assist dealing and quick disposal, many investment consortia prefer to keep stocks in bank vaults in Europe, rather than in their home base in Saudi Arabia and the Gulf.

Additionally some private investors—and, most probably, members of some of the Arab royal families who habitually trade in precious metals—like to maintain holdings in stable places like Switzerland as a form of last resort insurance against a change of regime or other political disturbance in their country. It is significant, for instance, that at least two of the big gold-dealing entrepreneurs in Beirut—the traditional centre of Arab gold dealing before the civil war—have since moved their operations to Zurich, where they are by all accounts prospering.

Although its significance as a trading centre has declined, Beirut is still an important entrepot for Middle East gold. Much of the dishoarded supplies which came back to Europe from the region last year were sent by air from the city to Switzerland.

Dubai remains an important shipment point for supplies of metal passing from the Gulf and the Indian sub-continent to Europe and vice versa. Recently the Soviet Union has shown increased interest in the possibility of selling small gold bars — the most popular form of investment in India—in Dubai for transhipment further east.

The exception to the general pattern of lower physical shipments to and from the Arab countries this year stems from the activities of central banks and other official institutions in the area.

Iraq and Libya have emerged as the two main Arab states which have shown great enthusiasm about building up their gold reserves—partly on purely financial considerations but partly too for political reasons. The United Arab Emirates, Kuwait, Oman and Qatar have also operated in the market from time to time in varying degress. Outside the main oil-exporting group, Syria and Jordan have occasionally shown interest.

Convert

Only in the case of the most powerful potential gold convert, the Saudi Arabian Monetary Agency (SAMA) has there been no sign of any official buying —although rumours abound that SAMA has in fact purchased gold at times through intermediaries.

Last year large-scale shipments of gold from Zurich to Baghdad were revealed in Swiss customs statistics, providing the first confirmation that Iraq had emerged as one of the biggest buyers of bullion in Opec. The Swiss figures are no longer published following complaints from the Swiss banks' clients that their traditional secrecy was being violated.

But this year it is believed that Iraq, after selling some of its gold stocks at a price of $550 to $600 per ounce, may have been back in the market to buy gold again recently. Iraq has been much less financially hit by the war with Iran than Tehran (which has also made large gold purchases through its central banks over the past few years, but been forced to sell some recently).

Iraq's gold reserves have not been published for four years; they are classified at a state secret. Other countries are more obliging, however. According to statistics supplied to the International Monetary Fund (IMF), Libya's gold reserves rose to more than 3.5m ounces as of May this year from only 2.7m ounces last autumn.

Libya has been building up its gold holdings in Tripoli, mostly, it is believed, through purchases on the London market.

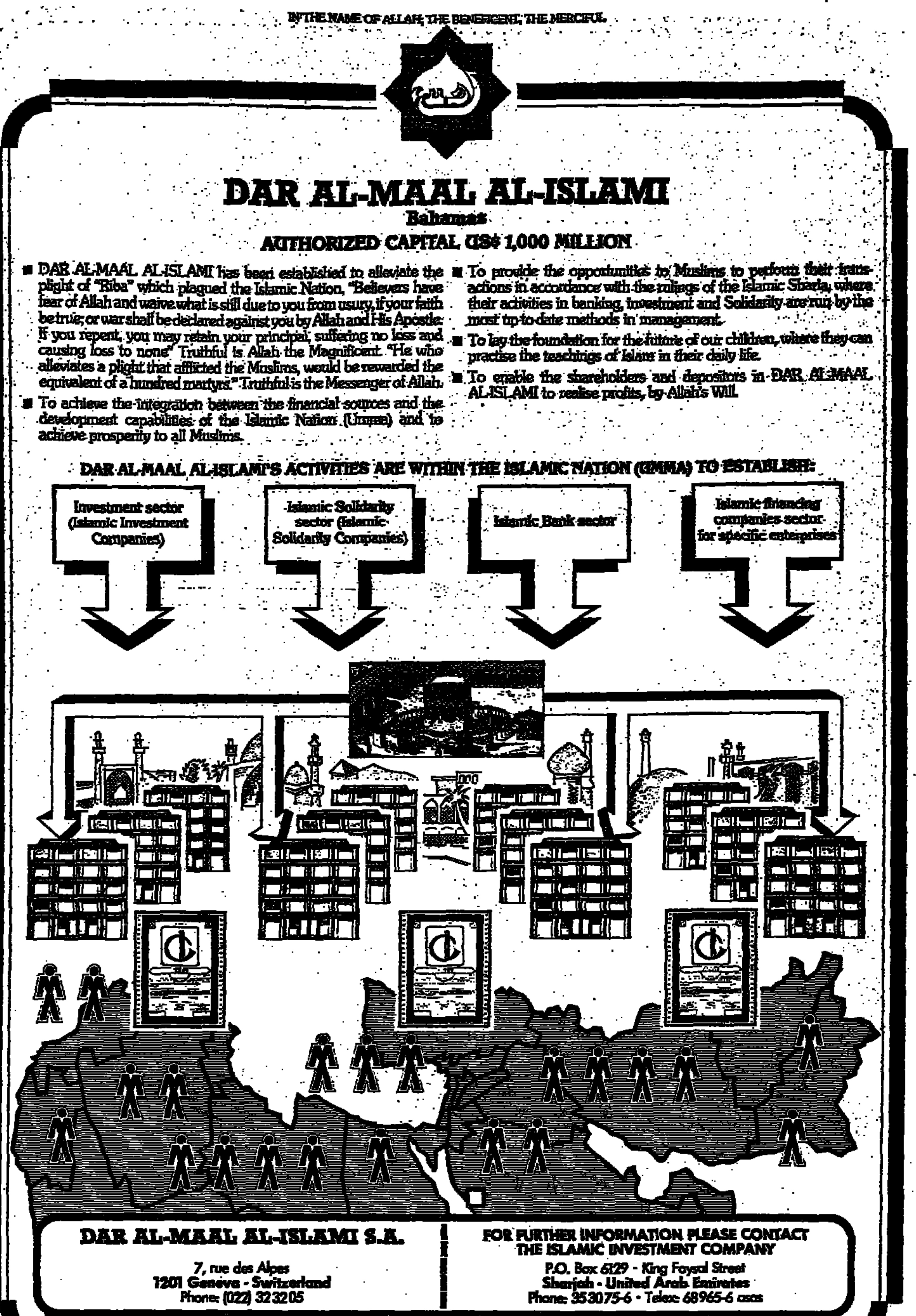
Buying has been motivated particularly by the desire to maintain a stock of international assets free from possible interference from the West. With the memory still fresh of President Carter's action to block 50 tonnes of Iranian gold held in the New ork Fed in November 1979, and with the political temperature between the Libyans and the U.S. freezing rapidly, Col. Gadaffi is in no mood to take chances.

Similar but smaller purchases of gold have shown up in IMF statistics for Oman, Jordan, Qatar and the United Arab Emirates, although it is certain that the IMF figures do not tell the whole story because of the proliferation of semi-official reserve-investing institutions in these states.

SAMA is still thought to be basically too conservative to make large forays into the gold market. In a sense, however, the Saudi Arabians have already provided an example for the other more adventurous Arab states to follow. During the 1970s, motivated by the desire to be master of its own reserves, the Saudi Government transported all its gold stocks from the New York Fed back to the security of Riyadh.

David Marsh

ARAB BANKING VI



OFFICIAL DEVELOPMENT ASSISTANCE FROM OPEC AND OECD MEMBERS

	1975 $m	1975 % GNP	1976 $m	1976 % GNP	1977 $m	1977 % GNP	1978 $m	1978 % GNP	1979 $m	1979 % GNP	1980* $m	1980* % GNP
OPEC												
Nigeria	14	.04	83	.19	64	.13	38	.06	31	.04	42	.05
Algeria	41	.28	54	.33	47	.24	44	.18	272	.87	83	.21
Iran	593	1.12	752	1.16	221	.29	278	.37	21	.03	29	.03
Venezuela	31	.11	103	.33	52	.14	109	.27	82	.17	130	.23
Iraq	218	1.64	232	1.44	61	.33	172	.76	868	2.60	854	2.19
Saudia Arabia	1,997	5.62	2,407	5.13	2,409	4.09	1,470	2.27	2,298	3.01	3,033	2.60
Libya	261	2.30	94	.63	115	.65	169	.99	108	.46	281	.92
Kuwait	976	8.11	616	4.52	1,517	10.02	1,268	7.36	1,053	4.08	1,186	3.87
UAE	1,046	11.68	1,059	9.21	1,175	8.05	684	4.82	1,118	6.17	1,062	3.96
Qatar	339	15.62	195	7.95	197	7.90	106	3.56	277	5.89	289	4.50
Total OAPEC	4,878	4.99	4,657	3.83	5,521	3.75	3,913	2.39	5,980	2.80	6,798	2.34
Total OPEC	5,516	2.59	5,595	2.14	5,858	1.91	4,338	1.29	6,123	1.49	6,999	1.36
OECD												
Italy	182	.11	226	.13	186	.10	375	.14	279	.09	600	.15
New Zealand	66	.52	53	.41	52	.39	55	.34	62	.30	63	.27
UK	910	.39	885	.40	1,120	.46	1,456	.48	2,067	.52	1,766	.34
Finland	48	.18	51	.17	49	.16	55	.17	86	.21	106	.22
Austria	79	.21	48	.12	108	.22	166	.29	127	.19	174	.22
Japan	1,148	.23	1,105	.20	1,424	.21	2,215	.23	2,638	.26	3,300	.32
Australia	552	.59	377	.41	400	.42	588	.54	620	.52	653	.47
Canada	848	.52	763	.39	945	.48	1,060	.52	1,042	.47	1,035	.42
France	2,093	.62	2,146	.62	2,267	.60	2,705	.57	3,358	.59	4,041	.63
Netherlands	608	.75	728	.83	908	.86	1,074	.82	1,404	.93	1,577	.99
U.S.	4,161	.27	4,360	.26	4,682	.25	5,664	.27	4,567	.19	7,091	.27
Norway	184	.66	218	.70	295	.83	355	.90	428	.93	472	.82
Belgium	378	.59	340	.51	371	.46	536	.55	631	.56	575	.48
W. Germany	1,689	.40	1,592	.36	1,717	.33	2,347	.37	3,350	.44	3,512	.43
Denmark	205	.58	214	.56	258	.60	388	.75	448	.75	464	.72
Sweden	566	.82	608	.82	779	.99	783	.90	956	.94	923	.76
Switzerland	104	.19	112	.19	119	.19	173	.20	205	.21	246	.24
Total OECD	13,820	.36	13,829	.33	15,680	.33	19,994	.35	22,267	.34	26,603	.37

* 1980 data provisional for OPEC, estimated for OECD.

Source: World Bank: World Development Report 1981.

Big jump in Third World aid counters criticism

THE TEMPORARY easing in the upward trend of world oil prices this year has helped to moderate the sometimes ill-tempered comparisons between the performance of Arab countries, Opec and OECD members in providing assistance to developing countries.

Perhaps as important, the accusations made by some leading industrial nations that the oil producers had contributed a smaller proportion of larger surplus revenues during 1978 and 1979 have been countered by a sharp reversal in the trend last year.

Preliminary figures show that in 1980 net disbursements of official development aid by Arab members of Opec reached $6.8bn, an increase of 12.4 per cent over the previous year. This strong upward trend has continued during the first half of 1981, despite the political difficulties of at least two Opec members.

During 1980 Arab aid agencies and the Opec Fund for International Development alone increased their disbursements to Third World countries by 43 per cent to $1.9bn. This performance, they claim, is in many ways qualitatively superior to that of the industrialised world and is provided at perhaps greater cost to the donor nations.

Target

Using the standard, if somewhat tendentious, gauge of measuring a country's aid as a proportion of its Gross National Product (GNP), the Arab countries argue that in general they have since 1974 been well in excess of the 0.7 per cent target set by the UN for 1985. In 1975, for example, some Arab countries exceeded that future target by over 20 times and at least four have remained well ahead of it.

Provisional figures for 1980 emphasise the contrast between the leading aid contributors in the Arab world and those in the OECD. While not one OECD country has in any year since 1975 provided as much as 1 per cent of its GNP in development aid, there were three Arab countries last year at around 4 per cent and two more over 2 per cent.

The point for the developing countries, however, is not so much whether the oil producers have been ahead of OECD members' contributions or targets set by the UN but whether aid levels have matched the increased cost of their oil imports. In the years 1973/74 and 1978/79 this was very clearly not the case. The Opec line has always been that aid should not be given as compensation to those who import oil or that Opec members should in any way be held responsible for the difficulties facing the less developed countries.

The media have long been blamed by Arab countries for their presentation of the oil producers as rich nations. Instead the latter prefer to see themselves as developing countries using their primary natural resources to assist nations at a similarly early stage of industrial, agricultural and social development.

The aid they are providing, they argue, comes from a depleting resource, whereas the truly rich Western countries manage to recycle their aid through the sale of capital equipment, technology and services to the Third World. In adition a proportion of Arab aid is used directly by developing countries to finance the import of goods and services from the industrialised nations.

The Arab oil producers have also this year been attempting to counter the arguments that a major proportion of their disbursements goes to friendly neighbouring countries and too little is channelled to the rest of the world. In response they have pointed to the high percentage of aid which Britain provides for the Commonwealth and the high proportion of French assistance which goes to French-speaking countries.

The Opec Fund for International Development, on the other hand, has made direct loans to 76 countries in Africa, Asia and Latin America and now claims to have reached all but the relatively high-income developing countries. Dr Ibrahim Shihata, director general of the Fund, says that it is this, rather than the concentration on neighbouring countries, which should be stressed as a unique feature of Opec aid. "If there is a concentration of Opec financial assistance, it is on the poorest countries, an emphasis which is not discernible in OECD aid as a whole," he says.

But as Dr Shihata pointed out: "A debate of this type may be interesting to those concerned with public relations but it does not address the challenges of the escalating problems of the developing world nor does it in itself advance the search for a solution to the acute financial dilemmas which many developing countries are facing."

One of the directions this search might take is through far greater co-ordination of effort both at regional and international level. The Co-ordination Secretariat of the Arab Fund for Economic and Social Development offers some insight into the basic lending trends of the eight principal Arab development funds. These appear to be placing greater emphasis on basic infra-structure projects and are in general reducing the percentage of their overall commitments to Arab countries.

But it is recognised that because a large proportion of Arab lending is done on a bilateral government-to-government basis the possibilities for more detailed co-operation are limited. Instead officials are aiming over the next few years to concentrate their efforts on the gathering and exchange of information, the preparation of economic reports and more detailed discussions on how joint financing operations should be carried out. And while direct balance of payments support will continue to absorb much of the aid given to developing countries, especially within the Arab world, it is hoped that by pooling resources the aid agencies will prove more adept at identifying projects and at providing the technical back-up to follow them through.

Disbursements

Just over 20 per cent of all loan disbursements made by the aid agencies last year came from the Islamic Development Bank based in Jeddah. With Saudi Arabia, Libya, UAE and Kuwait its major shareholders, the bank lent over $420m, of which 80 per cent went to finance foreign trade. The next largest donor was the Saudi Fund for Development, which showed an over 30 per cent increase in lending. Total disbursements reached $330m during the year, spread among 21 recipients.

The Kuwait Fund for Arab Economic Development made only a third of that number of loans but disbursed $266m. The largest percentage increase during the year came from the Iraq Fund for External Development, which more than doubled its number of loans and disbursed $253m compared with $106m in 1979.

Iraq has insisted that despite its year-old war with Iran it will continue to honour existing commitments and will consider new applications as before. Dr Abdul Amir al-Anbari, chairman of the Iraqi Fund, said earlier this year that his country viewed assistance to the Arab and Third World as an indirect form of economic development for Iraq itself.

"From the national point of view, Iraqi aid to the Third World promotes the economic power of these countries, which enhances their political independence and freedom. This leads to greater Third World solidarity and support for Arab issues in general and for the Palestinian problem in particular. Such considerations make Iraqi investments in these countries no less important than economic investments in Iraq itself."

It is ironic that Iraq should have had to call on financial assistance from Saudi Arabia, Kuwait and the United Arab Emirates during the past few months and while its reserves remain relatively healthy the massive drop in its oil revenues and the absence of any sign of an end to the Gulf war must place a question mark over the fresh aid commitments it can undertake next year. Saudi Arabia, however, appears well placed to take up any slack in multilateral Arab aid, given that it has only recently reduced its oil production to 9m barrels a day and even at that level is still amassing financial surpluses at an impressive rate.

Of the smaller Arab funds the one showing most dynamism is the Arab Bank for Development in Africa. It trebled its number of loans last year and quadrupled to $81m the facilities it made available. This reflects the growing Arab awareness of the African countries and the extent to which development assistance has increased in the past five years. In 1980 total Arab aid to Africa is estimated at $1.2bn, an increase of 115 per cent over the previous year. Over 97 per cent of that aid was provided on concessional terms and it is being increasingly concentrated on the least developed areas of the continent.

Roger Matthews

Private investment flourishing

AN EXPERIENCED and fairly senior British merchant banker, familiar with the Arab financial world, recently returned from his standard 14-day prospecting trip around the oil-resource states of the Arabian peninsula. Sporting the customary pallor induced by exposure to the icy and unremitting blasts of Middle East office air-conditioning, and with a tongue furred by innumerable cups of Arab hospitality coffee, the banker offered his considered opinion that the private Arab investor looking for western outlets for his surplus capital was an all but extinct species.

The doleful conclusion of the British banker was overstated. Far from diminishing in numbers, private Arab investors are a flourishing and increasing breed, and individual millionaires and multi-millionaires have long ceased to be a rarity. What has happened, and what the British banker found, is that it is becoming less common for the Arab investor to channel his overseas investment funds through western financial institutions. Instead there is a growing tendency to utilise the purely Arab financial entity as the conduit for overseas investment.

An example of this trend is seen in the recently-formed Al Mal International Services, based in London. Registered in Luxembourg and the Bahamas with a capital of $25m, Al Mal is specifically designed to handle the private investment interests of those it terms "high net worth individuals." The Al Kattan family, of Kuwait and Saudi Arabia, and Zein al Mayassi, a wealthy Jordanian, are major shareholders in Al Mal. Only recently Al Mal managed two Eurobond issues for important Japanese companies totalling $50m. All the money comes from wholly private Arab sources.

Foreign banks themselves are a much favoured investment for the very wealthy Arab investor and these, in turn, often become the chosen conduits for private foreign investment. Reputedly one of the world's richest men, Mohammad Mahdi Tajir, the United Arab Emirates Ambassador in London, has a respectable shareholding in the London-based Allied Arab Bank via his Al Tajir Bank registered in the Cayman Islands. Trans-Arabian Investment Bank, an offshore bank in Bahrain has Prince Saud bin Naif bin Abdul Aziz as its chairman. He is a son of the Saudi Arabian Minister of the

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Insurance market gets boost from new venture

INSURANCE IN its modern concept and methods first became known and developed in the Arab countries towards the end of the 19th and the beginning of this century.

Foreign agencies introduced insurances such as marine cargo cover. Eventually, local companies began to emerge. Impetus to the development of an insurance industry was stimulated by the discovery of oil and the increase in revenues in certain areas, leading to ambitious programmes of work which required more insurance services.

The Arab world has provided one of the world's most rapidly growing insurance markets since the 1973-74 oil price rise and over the four years from 1975 to 1978 premium has grown at an average of 20 per cent.

By far the most important development this year is the start up of the Arab Insurance Group, based in Bahrain, which began operations on July 1.

It was set up as a $3bn joint venture in Libya, Kuwait, and United Arab Emirates.

Although only $150m of the capital is paid up the rest is pledged to the new operation. Eventually, the new market, to be opened formally next month, could challenge some of the world's largest insurance groups, but so fa rthe management says that it is looking for co-operation with old-established world markets.

REINSURANCE TRENDS IN THE ARAB WORLD ($m)	1967	1977	1978	1979
Gross premium	24.98	271.6	317.8	377.9
Net retained premium	16.72	167.5	191.1	212.3
Retention %	66.9	61.7	60.1	56.2
Technical reserves	24.72	200.0	240.1	225.8
Reserves retention %	147.9	119.4	125.6	106.4
Investment return	0.92	8.89	12.4	14.4

Source: General Arab Insurance Federation

Presence

The new group intends to undertake insurance and re-insurance operations in all classes of business, and hopes to establish a physical presence in various forms, throughout the world. Initially, it is trading as an international treaty and facultative reinsurance business.

At a later stage the group will also start underwriting direct insurance through a large network of group companies, joint ventures, branch offices or agencies in several countries and will offer a range of allied services. A detailed training programme is now being organised and by the end of the year the group hopes to be writing premiums of $50m.

The creation of the new insurance market represents another move by the Arabs towards providing their economy with sources of wealth outside of their traditional oil revenues.

National reinsurance companies in the Arab countries began to be formed towards the end of the 1950s and the beginning of the 1960s. Now there are nine Arab reinsurance companies, two of them owned by participants from more than one Arab country.

Ironically, the war between Iran and Iraq gave an added boost to developments in the Arab world. The outbreak of war prompted a relaxation in the tense relations between Lloyd's and the region which had existed since Lloyd's decision to impose surcharges on the premiums of vessels entering the Gulf.

The response of local states was to set up the Arab War Risk Syndicate (AWRS), which began operations last January. It comprises more than 30 insurance companies which insure general cargo and tankers from the Gulf region as well as offshore oil installations.

The prime advantage of the syndicate is that it enables the consumer to have the advantage of buying wholesale and it should be able to obtain favourable rates from the reinsurance market in London or New York.

In the marine insurance market itself — the most important market in the region, accounting for about half of total premiums — the experience has been variable. Marine premium income rose sharply in the 1970s in all the major regions, but in recent months there have been signs of a slowdown. UAE insurance companies have reported losses caused by the Iran-Iraq war.

There has been a considerable expansion of a range of other insurance services. Contractors insurance is developing steadily, probably providing around 15 per cent of total premiums in a country with an ambitious development programme. Increased urbanisation has encouraged some growth in the fire, motor and life sectors in the Gulf.

Biggest

The biggest single market is Saudi Arabia, where premium income is valued at more than $500m a year. Algeria, Morocco, Egypt and Iraq are estimated to produce about $200m in premiums a year, while Kuwait and Libya generate about $150m.

In Saudi Arabia it is project development insurance that provides most of the business, with marine premiums relatively low at about $13.8m in 1979. Cover for the Jubail port development —more than $1bn — was provided by both Saudi consortia and major international insurance companies.

Total premiums for this year have been estimated at $18.1m, with 30 Saudi-backed companies taking about 75 per cent of the risk and Britain's Royal Insurance the remainder.

Marine insurance premium rates are currently under pressure in the Arab egions as competition intensifies. In many areas claims are rising sharply. Claims on marine cargo and hull business soared from $4m in 1974 in the UAE to $25.8m in 1978. In Morocco they rose from $4.3m to $13.3m over the same period, while in Syria they rose from $900,000 in 1973 to $12.4m in 1979.

Claim awards have now overtaken the growth of premium income. On average, marine claims in North Yemen, the most difficult area, grew by a huge 134.65 per cent in 1977 and 1979, while premium income rose by only 9.89 per cent a year. In the UAE, claims grew by 58.77 per cent against premium growth of 53.53 per cent between 1974 and 1978.

The General Arab Insurance Federation attributes high marine claim rates to a number of factors: congestion; limited facilities and inexperienced labour at ports; inefficient book-keeping; fraudulent acts by some shipowners and operators; negligence by customs authorities; and lack of co-operation between insurance companies.

The insurance market is relatively unregulated, partly because in some of the Arab countries insurance is not officially condoned. It is considered to be gambling on the will of Allah. But it has managed to maintain a rapid rate of growth with premiums running at about $3bn.

Yet there are signs that the Moslew religious authorities are taking a more relaxed view. They have pronounced that it is not contravening the religious faith of the region.

Even so, nine Saudi insurance companies are registered offshore because insurance is considered to be a form of money lending proscribed by the Koran.

John Moore

MARINE PREMIUM INCOME AND LOSSES
(Average annual growth per cent)

	Premium	Claims	Period (inclusive)
Jordan	21.65	25.67	1975-79
Morocco	26.84	30.92	1973-78
Somalia	17.85	65.62	1973-79
Syria	32.35	53.28	1973-79
Tunisia	31.16	70.91*	1973-78
UAE	53.53	58.77	1974-78
North Yemen	9.89	134.65	1977-79
South Yemen	2.01	121.61†	1977-79

* From 1976-78 only. † From 1977-78 only.
Source: National Insurance Company, Baghdad

Private investment

CONTINUED FROM PREVIOUS PAGE

Interior. The two Shobokshi brothers, who have built up a large business empire in Saudi Arabia, are also shareholders in Trans-Arabian.

In the U.S. the Federal Reserve Board has given its approval to the takeover by an Arab consortium of Financial General Bankshares, a holding company which owns several banks in various states in America. The Arab consortium is led by Shaikh Kamal Adham, the brother-in-law of the late King Faisal and a former head of the Saudi Arabian Intelligence Service.

The consortium is made up of eleven other investors from the Gulf states and Saudi Arabia. It includes Abdullah Darwish, from Qatar and a financial adviser to the ruling family in Abu Dhabi—and Faisal al Fulaij, a Kuwaiti and a former chairman of Kuwait Airways. The Arab bid values Financial General at about $200m and the attraction of the holding company is that it is not subject to the legal restrictions on multi-state banking.

The number of Arab financial institutions which are essentially investment vehicles for their owners and shareholders is growing fast. There are already at least a dozen such, not counting investment houses with a government shareholding. Extremely wealthy Arab businessmen like Gaith Pharoun, Shaikh Suleiman Olayan, Adnan Khashoggi and Khalid bin Mahfouz long ago turned their investment activities into corporate entities. Gaith Pharoun's purchase earlier this year of a five per cent stake in Club Mediterrance for $13m was arranged through one of his own Bahama-based companies, Interdec Properties.

In assessing the actual amount of Arab money invested overseas the volatile nature of some proportion of it must be borne in mind. A few months ago many Kuwaitis took legitimate advantage of low local interest rates to borrow Kuwaiti dinars and exchange them into high interest rate dollars. This agreeable and effortless means of making a profit became so popular that the Kuwait authorities became temporarily alarmed at the outflow of funds from Kuwait.

But, briefly, the exercise would have added many millions of dollars to the sum of Arab investment abroad. The purely money-type investment, in deposit accounts, investment accounts and other money instruments react to varying interest rates, changing currency values and fluctuating stock market prices and those investments can and do move back to their land of origin as quickly and as easily as they came out of it.

Nevertheless, discounting temporary ebbs and flows, the private Arab investor has placed an estimated $50bn-$60bn in overseas investments. The bulk of that amount comes from Kuwait and Saudi Arabia, with a much smaller contribution from the United Arab Emirates and the other smaller Gulf states. Although oil rich countries Iraq and Libya do not produce the "high net worth individual" which Saudi Arabia and Kuwait have in ample numbers.

As long as those countries, especially Saudi Arabia, press on with their huge development and industrial programmes, multi-millionaires will be spawned in ever increasing numbers and the half a hundred billion dollars invested abroad today could soon be seen as only the beginnings of what private Arab money can do.

John Christie

Consortia partnerships and how they are faring

EUROPEAN-ARAB consortium banks are now moving into their second decade and in some cases their first reincarnation.

When the partnerships were originally formed in Paris, with the approval and encouragement of President de Gaulle and others, the philosophy was to strengthen financial links between Europe (especially France) and the Arab world.

This concept naturally meant better banking relations between European and Arab countries, the promotion of trade, the transfer of technical skills, and the use of the new consortium vehicles in financing projects in Arab countries.

Some of the goals have been achieved. The Union de Banques Arabes et Française (UBAF), for example, has grown into a large international organisation with total assets of $22.6bn at December 31, 1980. With only a few Arab and French banks a decade ago, UBAF now has nearly 30 Arab banks and branches around the world.

Founder

On the non-Arab side there is a founder member, Crédit Lyonnais, as well as Banque Française du Commerce Extérieur, Midland Bank, First Chicago Corporation, and others. UBAF's network covers Paris, New York, London, Rome, Luxembourg, Tokyo, Hong Kong, Frankfurt and South Korea.

UBAF has achieved a place in the international syndicated loan sector and even played a major part in leading the first syndicated loan to China in 1979. The $300m facility came about soon after Mohammed Abushadi, chairman, and several other Arab bankers travelled to Peking.

The structure of leading consortium banks such as UBAF, the Banque Arabe et Internationale d'Investissement (BAII) and others may soon change however.

Last week the Arab shareholders in Banque Franco-Arabe d'Investissements Internationaux (FRAB-Bank), one of the first banks to be established in Paris with the participation of Arab capital, decided to buy out their European partners.

FRAB-Bank, which has done well under the chairmanship of M. Yves Bernard, was finally confirming rumours which had circulated for months. Rumour had it that Société Générale, which has held a 25 per cent stake, wanted to ease its way out of the consortium.

Following previous denials of rumours, Société Générale and others went ahead last week and confirmed them. The deal involves Société Générale and other non-Arab investors, including banks in Belgium, Switzerland, Japan and Greece.

It is understood that the deal will result in a payment to non-Arab shareholders of about $25m. FRAB's balance sheet in 1980 was FFr 4.5bn and net profits came to FFr 5m.

M. Bernard commented last week that the idea of the original consortium, set up 12 years ago, was to bring together European and Arab interests at a time when neither side was particularly familiar with the other. But now Société Générale had a network of its own in the Middle East, while the Arab shareholders wanted their own international activities to be developed.

Last week's report from Paris of the Arab purchase of FRAB-BANK was especially poignant in the light of similar reports that Crédit Lyonnais, a founder member of UBAF, wished to withdraw from the holding company of this bank.

As the rumours started a few months ago, prominent French bankers began wondering whether this was to be the end of the era that started under Presidents de Gaulle and Pompidou at a time when such consortium banks were very much *à la mode*.

In Paris, Mr Mohammed Abushadi responded to reports that Crédit Lyonnais was selling its stake in UBIC, the Curacao and Netherlands-based holding companies he set up five years ago to bring some order to UBAF's worldwide operations.

Mr Abushadi said: "I want to make it clear that the French shareholders are and will go on holding 40 per cent of UBAF, nothing in the world could make them leave this institution and nothing in the world could make the Arab shareholders wish that such an event should ever take place."

Attached

The Arabs were "very attached to their continuing presence in UBAF," just as they were also keen on developing their relationship with the American, British, Italian, German and Japanese shareholders of the respective banks, he added.

Mr Abushadi concluded: "The eventuality of the French shareholders selling their participation in UBIC has been under discussion for a long time simply because it was felt that their indirect presence in the rest of the group conflicted with the underlying philosophy which has constantly guided our strategy in establishing the group—to create in each country a joint venture bank including, besides Arab partners, purely local leading banks."

His statement last week is the latest basis for observers of UBAF to understand what is happening. At FRAB-Bank, the dust seems to have settled a little more.

Regardless of the politics of European-Arab banking ties, the consortia are here to stay. By the end of last year they had demonstrated their effectiveness in several ways. The value of letters of credit for Arab imports executed by these banks in 1980 totalled around $10bn, or nearly 20 per cent of the imports by Arab states from industrial countries.

One of the major consortium banks which has opened its books is the European-Arab Bank formed in 1972, with its holding company in Luxembourg and key staff in London.

This bank has, and plans to continue to have, a 50-50 split in its Arab-European shareholding. The group's four subsidiaries (in Brussels, Frankfurt, London and Bahrain) are all wholly-owned by the holding company.

In London, Mr Nigel Pearson, deputy general manager, said this organisation was unlike UBAF's. "That's why we feel we can point to a truly consolidated balance sheet," he said. "Our shareholdings do not vary from country to country. We have closer co-ordination."

Mr Pearson admits that his bank has not been as active in areas such as project financing as it would have been wished. But the past year had been a "year of consolidation" as "heavy start-up costs at the Bahrain branch were incurred.

Speaking of consortia in general, he said it was possible that there had been too much concentration on worldwide financing. "Maybe they've been too keen to do the easy business," he commented.

But he emphasised that building up a consortium bank was a long and difficult process. European-Arab's growth was continuing, he claimed. Figures yet to be released for the group's consolidated balance sheet as at June 30 show assets of more than $2bn.

Meanwhile, the Luxembourg holding company was injecting equity capital and sub-ordinated loans into all parts of the family.

Clearly, consortium banks, like all banks, have their problems. Profitability has not always been very high, their role has often been more that of intermediaries between international clients than as active operators in a host country.

The consortia continue to grow, however. Plans are being made for further incursions into the syndicated loan market and also in project financing.

Even if some of the groups seem to be experiencing a less than peaceful reincarnation, they still have a part to play.

Alan Friedman

Tide of Islamic banking begins to run strongly

IF YOU were told you could obtain an interest-free loan without collateral from a bank or that the bank refused to pay interest on your deposits, you might suspect that your informant was dreaming or undergoing a bout of mid-summer madness. This, in fact, and more, is possible with Islamic banks. They are a significant new phenomenon in the world of finance which in time might develop to be as important as the emergence of Euro-currency financing in the 1950s.

Attempts at establishing such banks have been going on for over 20 years; in 1962 an Islamic bank was set up in Mit-Gham in the Upper Nile delta. It proved quite successful and by 1967 it had about 1m clients. It was then closed down—apparently for political reasons.

Nevertheless, the venture laid the seeds of modern Islamic banking. Soon afterwards, particularly with the spectacular increase in the liquidity of some Moslem countries, more banks were opened, the first being the Islamic Development Bank, was set up in 1975 with the encouragement of the late King Faisal of Saudi Arabia.

There are now as many as 13 Islamic banks in various parts of the Arab world, the latest being Dar Al Maal Al Islami (Islamic Financial House), a $1bn venture launched in Geneva last June by Prince Mohammed al Faisal al Saud, a son of King Faisal and a nephew of King Khaled of Saudi Arabia and a founder of the Faisal group of banks.

With the exception of the Islamic Development Bank, in which the Saudi Government has a majority interest, all Islamic banks were established as public companies and all were oversubscribed.

The protagonists of Islamic banking argue that Islam—unlike other religions—does not only address itself to morality but to the practical socio-economic problems of society. Sharia (Islamic law) was the basis of the very elaborate institutions which developed during the heyday of the Islamic empire.

Immoral

In the contemporary world of Islam both a moral as well as a practical need exists for the development of Islamic banks. There is moral need because commercial banking today views money as a commodity and, by charging interest, uses money to make money. In Islam, however, money is seen purely as a means of exchange with no intrinsic value of its own. Unless money is translated into a productive process, it is considered immoral to pay a premium for it. That is why neither deposits given to an Islamic bank nor loans granted by the bank bear interest. Interest is considered as usury—or riba—which is prohibited by the Sharia.

The practical need for Islamic banking is interlinked with the moral one, because as a result of the ethical basis of modern banking concepts, commercial or Riba banks have failed to mobilise savings in the Moslem world. It is estimated, for example, that until the 1970s only 4 per cent of Egyptians expected to use banks did so.

The hoarding of capital—which often proves a hindrance to economic activity, particularly in the developing countries—is also forbidden by the Sharia. It is therefore a primary objective of Islamic banks to mobilise dormant resources. They apparently have no problem in achieving this goal.

It is claimed that on its first day of opening to the public the Islamic Bank of Kuwait received KD 50m ($140m) transferred from deposits in the commercial banks.

Naturally, neither Islamic banks nor their depositors are motivated by purely philanthropic considerations. Thus, while refusing to give or take interest, all Islamic banks have been making profits from the start of operations. Their depositors receive a share of these profits and the banks have developed a number of novel mechanisms which enable them to make these profits.

The first of these mechanisms is the *musharaka*, a system whereby the bank enters into partnership for a limited period of time with the client for a particular project. Both the bank and the client contribute to the capital, with the client maintaining the right to buy back gradually the bank's shares. Profits emanating from such a project are normally shared by the bank and the client according to predetermined ratios agreed by negotiation and not by the prevailing rate of borrowing capital.

Another form of partnership is the *mudaraba*, a formula by which there is a marrying of capital with expertise: the bank provides the capital, the client the team for the project. Profits or losses are split according to a negotiated agreement and not as a percentage of the capital. Any loss is borne by the bank alone, unless it can be proved that it is caused by negligence committed by the client who normally takes on the responsibility of managing the project. In some cases, it is possible that such a partnership would *lead to ownership*.

The third system is the *murabaha*. Here, the bank purchases a commodity for the client at a known price and

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TOP 50 ARAB BANKS IN TERMS OF ASSETS

	Established	Total assets
National Commercial Bank	1938	14.9
Rafidain Bank	1941	8.8
Arab Bank	1930	7.1
Banque National d'Algerie	1966	6.3
Banque Exterieure d'Algerie	1967	5.9
Bank of Credit and Commerce International (BCCI)	1972	5.3
Commercial Bank of Kuwait	1961	5.1
National Bank of Kuwait	1952	5.0
Union de Banques Arabes and Francaises (UBAF)	1970	4.8
National Bank of Abu Dhabi	1968	4.7
Alahli Bank of Kuwait	1967	4.7
National Bank of Egypt	1898	4.4
Gulf Bank	1960	4.2
Riyad Bank	1957	4.2
Banque Misr	1920	3.7
Libyan Arab Foreign Bank	1972	3.7
Commercial Bank of Syria	1967	3.3
Al-Bank al-Saudi al-Fransi	1977	3.2
Credit Populaire d'Algerie	1966	3.0
Gulf International Bank	1975	2.8
Arab African International Bank	1964	2.7
Saudi International Bank	1975	2.7
Wahda Bank	1970	2.5
Banque du Cairo	1952	2.4
Banque Arabe and Internationale d'Investissement (BAII)	1973	2.4
Saudi American Bank	1980	2.1
National Commercial Bank	1970	2.1
Bank of Kuwait and the Middle East	1971	2.0
European Arab Holding	1972	1.9
Arab Banking Corporation	1980	1.9
Bank of Alexandria	1957	1.8
Al-Bank al-Saudi al-Hollandi	1977	1.7
Saudi Cairo Bank	1979	1.6
Banque Intercontinentale Arabe	1975	1.5
Burgan Bank	1975	1.5
Saudi Investment Banking Corporation	1976	1.4
Jamahiriya Bank	1969	1.3
Union Mediterraneene de Banques	1975	1.2
Saudi British Bank	1978	1.2
UBAF Bank	1972	1.2
Bank al-Jazira	1976	1.1
National Bank of Dubai	1963	1.1
Arab International Bank	1971	1.1
Qatar National Bank	1965	1.1
Banque Marocaine du Commerce Exterieure	1959	1.1
United Bank of Kuwait	1966	1.0
Bank of Oman	1967	1.0
Bank of Bahrain and Kuwait	1971	1.0
UBAF Arab American Bank	1976	1.0
Union Bank of the Middle East	1977	1.0

Source: Middle East Economic Digest.

Sovereign borrowers enter into a quiet phase

SOVEREIGN ARAB borrowers are scarce these days. While Egypt savours new wealth from its oil to the extent of running a balance of payments surplus of $1.3bn last year, Algeria, whose appetite for borrowing abroad could never quite be quenched in the mid-1970s, has vanished from the sight of international bankers for well over a year.

The situation of these two borrowers is changing today as the result of the sharp fall in the real price of oil—though not yet to the extent of bringing them back to the international capital markets. Other Arab borrowers have maintained their presence, albeit in a fairly modest manner. Jordanian names continue to be much favoured by bankers but they hardly ever appear publicy. The same is true of the United Arab Emirates.

Such, however, is not the case with Morocco, which last year had to borrow $1bn from the International Monetary Fund (IMF) to help finance its balance of payments deficit. The country has raised only a limited number of loans during the past year and this, together with prudent debt management has helped avoid too sharp a fall in its credit rating.

Precarious

The one Arab country which does have a serious debt problem is Sudan. There is little it can do in terms of raising loans with commercial banks so long as its external financial position remains as precarious as it is today. There are hopes, however, that a $400m seven year loan, which is part of a larger rescheduling operation will be completed before the end of 1981.

Banks which have lent to Sudan say they have been receiving interest payments on loans outstanding since June 1981, a marked improvement on the situation up to then. Bankers hope the worse is behind them and look forward to an easier road ahead.

Arab country indebtedness overall—expressed as a ratio of loans withdrawn to GDP—rose from 24.5 per cent in 1975 to 41.5 per cent in 1979 and is expected to reach 70 per cent by 1985 if present patterns are maintained. Debt service over the same period increased from 2.6 per cent of GDP to 6 per cent and could increase to 11 per cent by 1985 while as a proportion of total export earnings it increased from 12 per cent in 1975 to 28.7 per cent in 1979 and is expected to reach 55 per per cent in 1985.

Despite its continuing absence from the international capital markets, Algeria remains the Arab country with the largest outstanding commercial debt. Figures recently released by the Bank for International Settlements suggest that the foreign liabilities of Algeria vis-a-vis banks in 14 industrial countries were over $9bn.

The BIS figures cover only bank activities within its own area (ie, the Group of Ten countries, Switzerland, Austria, Denmark and Ireland) and thus cannot be taken as a complete picture of countries net foreign assets.

Until late last year Algerian bankers had successfully sought to lengthen the availability period of some of their large outstanding loans. This year, however, they have hardly travelled out of Algiers.

Now Sonatrach, Algeria's state oil and gas company, is seeking to take advantage of the current low Eurocredit margins to renegotiate the terms on a $500m ten-year loan arranged two years ago.

The loan carried a spread of 1 per cent over the interbank rate throughout. Sonatrach has asked the agent bank, Citicorp, for the margin to be reduced to a split ⅝-¾ per cent for the remaining eight years. The borrower, which has not drawn on the credit so far, has also asked that the availability period of the funds be pushed back from the end of this year to the end of 1982.

The terms Sonatrach is able to command will provide a good test of Algeria's credit rating among international banks.

Jordan has been another notable absentee from the publicly syndicated loan market during the past twelve months. This reflects the country's sound economic health: public sector external debt rose by $200m by 1980 to $1,239m. Debt repayments continue to rise but debt servicing as a percentage of income from exports and services only rose from 4.8 to 5.8 per cent in 1979 and an estimated 9-10 per cent last year.

Total reserves of just over $1.5bn cover eight months imports today. Bankers estimate that were a Jordanian state borrower to approach the market it could command a spread of ⅝-¾ per cent on a medium-sized loan.

Egypt is another example of an Arab country which has not needed to raise publicly syndicated Eurocredits because it is in relatively good financial health. Although the decline in the price of oil is hitting it, there is as yet no sign of the country wishing to raise funds in the international markets. It would appear that a lot of funds from the U.S., often lent on concessionary terms, are continuing to flow to the banks of the Nile. So long as this situation lasts, there is little chance of seeing Egyptian borrowers back in the commercial loan market.

Of those countries which continue to borrow in the commercial markets, the United Arab Emirates raised $363m in 1980 as against $101m last year. The terms it pays continue to be fine, incorporating elements of ⅜ and ½ per cent.

One country whose credit rating has declined is Morocco but the country has avoided exacerbating an already difficult economic situation by refraining from stepping up its commercial borowing too much. In 1981 it has so far borrowed $542m as against $420m in 1980. The spread Moroccan borrowers are paying has increased a shade but this has also happened to many other Third World borrowers.

Morocco is well served by a very competent team of people at the Ministry of Finance and the central bank in Rabat. Their endeavours have avoided a sharp deterioration of the country rating among banks—something which could easily have happened considering the poor state of the country's external finances.

It should be added that many loans to private Arab companies, particularly in the Gulf and Saudi area, go virtually unreported. Two such deals were arranged for the French Saudi company Saudi Ogier and were led by the Amman-based Arab Bank. The rise of Arab Bank in 1980 in the league table of lead managers to second position behind Arab Banking Coroporation was essentially due to these two loans. But in virtually every case the terms of such transactions are not known—very often the transactions themselves remain secret.

Francis Ghiles

SOME MAJOR BORROWINGS

	1977	1978	1979	1980	1981*
Algeria	889	3,297	2,114	40	—
United Arab Emirates	1,086	726	401	101	363
Morocco	797	605	499	420	542

* Provisional to August 1981. Source: Morgan Guaranty

ARAB BANKS IN THE INTERNATIONAL SYNDICATED LOAN MARKET (First half 1981)

	Rank	Loans led	Amount ($m)	Per cent
Arab Banking Corporation	1	30	906.91	22.0
Arab Bank	2	11	706.92	17.1
Gulf International Bank	3	25	599.23	14.5
KFTCIC	4	9	433.29	10.5
National Bank of Kuwait	5	10	200.86	4.9
Al UBAF Group	6	13	198.60	4.8
Al Saudi Banque	7	8	178.68	4.3
Saudi International Bank	8	11	117.16	2.8
BAII	9	7	109.27	2.6
Arlabank	10	6	106.11	2.6
Arab African International Bank (Including Alhaab)	11	10	91.92	2.1
National Commercial Bank	12	6	87.35	2.1
National Bank of Bahrain	13	3	54.58	1.3
European Arab Bank	14	4	46.31	1.1
National Bank of Abu Dhabi	15	1	40.00	1.0

Source: Euromoney Syndication Guide.

ARAB COUNTRIES VIS-A-VIS BANKS IN 14 INDUSTRIALISED COUNTRIES 1980*

	Assets ($m)	Liabilities: Total ($m)	Liabilities: of which one year or less maturity† (%)	Liabilities: Undisbursed credit‡ ($m)
Algeria	n/a	9,033	16.3	2,879
Bahrain	9,359	7,733	97.1	219
Egypt	5,299	3,303	61.3	1,486
Iran	n/a	5,196	36.0	749
Iraq	n/a	345	96.5	418
Jordan	1,895	428	38.3	502
Kuwait	n/a	4,139	95.1	326
Libya	n/a	686	91.0	292
Oman	955§	253	65.6	384
Qatar	n/a	398	34.4	94
Saudi Arabia	n/a	4,269	80.6	1,820
Syria	928	485	85.4	110
UAE	n/a	5,199	77.7	813
North Yemen	757	140	40.0	105
South Yemen	350	33	97.0	16

* Austria, Belgium, Canada, Denmark, France, Germany, Ireland, Italy, Japan, Netherlands, Sweden, Switzerland, UK, U.S. † Includes all lending by Italian banks. ‡ Excluding undisbursed credit commitments of banks in Ireland, Italy, the Netherlands and Switzerland and of their foreign affiliates. § Excluding the U.S. Source: Bank for International Settlements.

Islamic banking

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resells it to the client at a profit.

Islamic banks also use some of their deposits to extend what are described as benevolent loans to partners facing cash flow problems, a process which can lead to improving the profitability of the operation.

In addition, Islamic banks offer the traditional banking services such as transfers, acceptance of current deposits, discounting of bills but all in accordance with the Sharia. All these operations involve fees which are not calculated on the

In effect the resultant fees are in the region of 3 per cent which indicates that more than a semantic difference exists between such fees and the interest-rates normally charged by commercial banks. According to Dr Youssef al Sabah, vice-chairman of Dar Al Maal Al Islami, the overall effect of this approach is more ethical: "no project would fail due to the heavy debt service it has to cope with."

This insistence on the morality of the Islamic banking approach was repeated again and again by Prince Mohammed Al Faisal Al Saud during a recent meeting in Geneva. As he expressed it: "There is a tendency for commercial banks to look more at the security available than the reason for the financing. We in the Islamic banks would study the project with you and share the risks involved if it is considered viable and socially useful. If it fails you lose your time and efforts, we lose our money, but you will not be burdened with interest payments for the rest of your life."

M. Tarbush

Saudi Arabia

Aggressive bidding for funds to build deposit base

DOMESTIC BANKING

Articles on this and the following two pages review developments in the banking systems of a representative six Arab countries.

SAUDI ARABIA'S banking market continues to grow as rapidly as any in the Middle East. Total commercial bank assets — a rough indicator of market size — rose 7 per cent in the three months ending June 2 last to SR 95bn ($27.8bn). This suggests credit expansion is running at about 30 per cent a year.

The bank assets figure understates the actual size of the banking services market, however, in addition to business that does not show up in balance sheets, a significant proportion of the business is taken by unregulated money changers which are free from the requirement to report monthly to the Saudi Arabian Monetary Agency (SAMA). Offshore banks, many based in Bahrain, are estimated to account for about 50 per cent of lending and deposits.

A third group is government agencies such as the Saudi Industrial Development Fund (SIDF), the Real Estate Development Fund (REDF) and the Saudi Arabian Agricultural Bank (SAAB), which finance private industry, housebuilding and agriculture respectively. These pre-empt the bankers, lending over $25bn in the 1979-80 financial year (which ended in May 1980).

Stimulated

So the commercial banks appear to account for a minority of the Kingdom's banking business, though they are now making efforts to win more. Their first target is to build a deposit base, and this has stimulated competitive bidding for funds from increasingly interest rate conscious corporations and individuals. Leading the pack are the two Saudi-owned banks—the National Commercial Bank (NCB), posssibly the Middle East's biggest private bank, and Riyad Bank. They have well established branch systems and still benefit from a low cost deposit base, though this is changing gradually.

Somewhat behind these two come seven locally registered banks with minority foreign shareholdings. These are Saudi American Bank (Samba), Al-Bank Al-Saudi Al-Hollandi (Saudi Dutch), Al-Bank Al-Saudi Al-Fransi (Saudi French), Saudi British, Al-Jazira Bank, Saudi Cairo Bank and Arab National Bank.

These joint ventures were created between 1975 and July 1980—either voluntarily or at SAMA's insistence—out of the Saudi operations of their foreign affiliates. The last to complete the metamorphosis was Samba.

Three other foreign banks continue to do business in the Kingdom, though they are expected to face Saudi-isation sometime in the future. They are Bank Melli Iran, Banque du Liban and d'Outre-Mer and Pakistan's United Bank. Nons is a significant participant in the market.

The 13th and final member of the commercial banking community is the Riyadh-based Saudi Investment Banking Corporation (SIBC). Founded in 1977, with a 20 per cent share held by Chase Manhattan Bank of the U.S., the SIBC concentrates on participating in development projects, but is also a member of the Jeddah, Riyadh and Dammam clearing houses. Small personal deposits are not accepted.

The immediate issue facing Saudi-ised banks is to expand services for new and potential depositors. For the Saudi British Bank (an affiliate of the British Bank of the Middle East), this entails starting a major branch construction programme across the Kingdom. Three new branches are scheduled to open in 1981 and another six are on the way. Samba—Citibank's affiliate—is more ambitious. It wants to open 50 new branches in the next five years.

Most Saudi-ised banks have a branching strategy to make up ground lost during the process of becoming locally controlled, when they were prevented from expanding. Some are focusing on particular market segments. Samba is aiming for clients of high net worth, trading companies and contractors—now generating the need for a plethora of guarantees for bonds related to construction projects.

Construction is one of the busiest sectors in the Gulf region — as typified by this scene of activity in the Saudi Arabian town of Jeddah

Mr. Mike Callen, Samba's managing director, says high technology banking is the key to the Saudi market, which is scattered over an area the size of Western Europe. The bank's plans to introduce a video display unit (VDU) system linking customers directly to the bank put it well ahead of its rivals, some of which are still in the process of computerising.

Profitable

Saudi banking is highly profitable, thanks in part to barriers to free entry for banks wishing to open offices in the Kingdom. Average returns on assets are often above 2 per cent, though some larger bank's earnings have been affected by sharply rising interest payments to depositors. This is despite SAMA'S ceilings on fees for letters of credit, transfers and other banking services.

Profitability has also been preserved in the face of the onslaught from offshore. More than 60 banks have offshore banking units (OBUs) in Bahrain, and all consider the Kingdom to be a major target. Some local bankers complain they have major competitive disadvantages. This is because SAMA has tight prudential controls on deposit-taking and lending. The biggest restrictions are considered to be a 15-to-one deposit to paid-up capital and reserve ratio, and a 7 per cent reserve requirement on demand and time deposits.

Price controls and limited capital may explain why Bahrain banks are winning a stream of lucrative construction guarantee facilities from contractors working in the Kingdom. Latest examples include Dong Ah Construction Industry's $m facility for housing in Buraidah and the seventh syndication for Riyadh's Saudi Oger, bringing the company's offshore syndications to more than $1 bn.

Nevertheless, the consensus is that Saudi banking will eventually squeeze out most if not all of the offshore bankers. Signs that they are interested in displacing the foreign banks are evident in early attempts by most of them to open merchant banking divisions. NCB has also opened a full foreign branch—an OBU in Bahrain. Growth is based on accumulating reserves.

The incentive is a market, rapidly growing but of modest size by European standards—possibly the size of Sweden's. It is not quite a gold-mine, but certainly big enough to sustain the interest of big international banks in the Kingdom for most of the 1980s.

Eddie O'Sullivan

Kuwait

Unruffled by nearby battle zone

A MERE 100 kilometres separates Kuwait from the battlefield where the Iraqi-Iranian war rumbles on a year after its outbreak. Kuwait seems as exposed as ever, but despite fears about its vulnerability to external pressures confidence in the local economy is stronger than ever. Property speculation is a continuing preoccupation. After last year's decline activity on the stock market has picked up and turn-over in 1981 may exceed the record KD 1.8b achieved in 1979.

Confidence has been generally strengthened by the appointment of Mr Abdeltif al Hamad as Minister of Finance, not the least because of the expectation that he will inject more money into the economy. The higher interest rates obtainable abroad have ceased to be the lure they were in 1979-80 when the system was drained of liquidity. The market is once again self-absorbed. More characteristically Mr Abdul la Gabandi, Deputy General Manager of the Kuwait Foreign Trading and Contracting Company, reflects the general attitude when he says: "The best place for Kuwaitis to invest in is Kuwait. Wherever you go there are risks and Kuwait is an island of stability."

He points out that profits on the stock market are "double if not triple" what they are elsewhere. Price-earnings ratios are extraordinarily high by any standards. And the most favoured shares of all on the stock market are those of the commercial banks—six solid and sound institutions plus the branch of the Bahrain and Kuwait Bank—which accounted for 55 per cent of turn-over on the Kuwait stock exchange last year. The total balance sheet of the Kuwait banks grew by nearly 29 per cent from KD 5.42bn to KD 6.99bn.

Deposits in commercial banks increased by 30 per cent but all the growth was accounted for by time deposits. Current and savings accounts were static as a result of higher interest rates outside the states. There was a rise in domestic lending too. The deficit of domestic advances widened over the year, at the end of which advances totalled KD 490m more than deposits as Kuwaiti citizens sought a better return elsewhere, in particular from Bahrain's offshore banking units.

Declared profits were an average of 10 per cent of shareholders' funds. Growth in 1980 was 19.5 per cent compared with 22.2 per cent in 1979 and 34.4 per cent in 1978. This amounted to an average of 10 per cent of shareholders' funds, whose ratio to total assets was 5.9 per cent. The squeeze on margins arose directly from the need to meet expanding demand for credit at a time when Kuwaiti money was flowing out of the state in search of arbitrage profit elsewhere.

Kuwait remains as firmly wedded as ever to low interest rates on advances. The ceiling remains 7 per cent for secured loans of not more than one year, 8.5 per cent for unsecured and 10 per cent for others. Recently Mr Hamad repeated the Government's adherence to them. "We do not feel that very high interest rates are to the advantage of our economic growth. They are inflationary and so on," he said. "Politically the removal of the ceiling would also not be acceptable to a public which regards cheap credit almost as a right.

Remedial

Faced with the outflow of funds the policy of the central bank has been more remedial than preventive. The Treasury bills issued since April 1979, which do not carry an attractive rate of interest, have been held only because they constitute a reserve asset. More important have been the central bank's discount window and its "swap" facilities. Under the latter, dinars have been made available at below market rates.

Last year the cheap funds provided were used by some banks on the interbank market affording easy arbitrage profits. As a result the central bank laid down that 22.5 per cent of bank's liabilities should be in locally placed KD assets. Those contravening the regulation face the withdrawal of "swap" facilities. The proportion of loans portfolios required to be held long-term has been raised from 45 per cent at the end of 1980 to 55 per cent at the end of 1981.

The more assertive central bank policy, aimed at ironing out the distortions created by an artificially low domestic interest rate structure has alleviated the liquidity shortage. For their part the commercial banks have adjusted and learnt to live with the shrinkage of low-cost current and savings deposits and the switch to customers to higher yielding time and foreign currency deposits.

The most recent statistics available indicated an easing of the problems arising from it. Domestic liquidity at the end of April totalled just over KD 3bn compared with KD 2.52bn a year before. The improvement has been such that the central bank has recently been considering higher Treasury bill rates to prevent a further increase in money supply.

Kuwait remains adamant in its refusal to allow foreign banks to open branches in the country. Central bank officials say that the present seven local commercial banks, two specialised banks and one Islamic bank are sufficient. "It's no problem to establish another bank in Kuwait," says one official. "If we feel the need for another bank we have enough money in Kuwait to establish it." By barring foreign banks from establishing themselves in Kuwait the central bank hopes to prevent a flooding of the market.

With 39 branches throughout the country and assets of KD 1.77bn at end-1980, the National Bank of Kuwait (NBK) remains the largest. It is the most aggressive internationally. NBK is relying mainly on expansion abroad for future growth. It ranked fifth among Arab institutions leading syndicated loans in 1980 with 10 issues worth $200m. Last year it set up its first overseas representative office in London and established a presence in Singapore last year to cover the Far-East-and-Australia.

Commercial Bank of Kuwait, with assets of KD 1.30bn at end-1980, was responsible for almost a third of the banks' lending to local industry last year. It also accounted for nearly a quarter of the credit extended to foreign contractors. In particular it has been heavily involved in hotel construction. Linked to Chase Manhattan through a management contract, the bank claims to be in the forefront of banking technology in Kuwait.

Widespread

Gulf Bank, with assets of KD 1.39bn at end-1980, has widespread connections in the Arab world. Six of its affiliates abroad are there. It has played a leading role in introducing the credit card system to the state (Eurocard and Visacard). Gulf Bank was also the first in the region to issue its own travellers' cheques. It continues to be prominent in trade financing.

Al Ahli Bank, with assets of KD 1.3bn is noted for its involvement in the financing of local constructors. In the past it has been as internationally oriented at NBK and a notable underwriter of bond issues as well as a participant in syndicated loans. In the first half of this year it led only two, however. It believes the yields available to be too low.

The Bank of Kuwait and the Middle East (BKME), with assets of KD 654.9m at end-1980 is a specialist in the business of re-exporting. Once the Gulf war ends it expects a considerable expansion of its activities in this field. Since June last year BKME has had an international banking division but still concentrates on the domestic market where the returns are highest. The Burgan Bank, with assets of KD 463m at end-1980, is the youngest and smallest of the six. Founded in 1976, with the aim of giving a wider public a chance to own bank shares, it is still 51 per cent owned by the Government. It does not, however, derive any particular advantage. Trade financing is the staple of its business.

John Dorsey

Egypt

Move to supervise foreign banks more closely

SINCE Chase Manhattan Bank established the first joint venture bank with the National Bank of Egypt in 1975, some 60 foreign banks have set up joint ventures with local banks, opened foreign branches or established representative offices in Egypt. This large influx of foreign banks has been the most visible product of President Anwar Sadat's attempt through the "open door" policy to draw in foreign capital for Egypt's economic development.

Over the past six years they have played a major role in reactivating Egypt's financial institutions and providing the credit to cover the explosive growth in the country's imports—about 20 per cent a year over the past five years. Fortunes have been made out of the lucrative letter of credit business and in placing the estimated $3bn of foreign currency banked in Cairo on the Euro-dollar market.

Blind eye

Ostensibly these banks were invited into Egypt to promote development — at least the foreign branches which are licensed as investment banks. The authorities turned a blind eye to their commercial banking activities, however — conscious that it was unrealistic to expect them to plunge into term financing before they had found their feet and aware also that they needed as many lines of credit as they could find to finance the expanding import bill.

The foreign banks have therefore been left very much to their own devices. They would argue that they have done a good job in engendering a competitive and effective import financing system from which Egypt as well as they have benefited. The bulk of imports are foodstuffs, raw materials and intermediate and capital goods needed for development.

Now there is a move towards greater supervision of the foreign banks — a move welcomed for the most part by the banks because they realise that the present lack of supervision is becoming politically unacceptable and also a danger to the stability of the market.

At the same time the political climate is becoming less indulgent to those banks thought to be making insufficient contribution to development.

The problem is not so much with medium-term lending. Banks are more than willing to lend for light industrial projects where the management, product and market can be clearly defined, but anything beyond five years becomes extremely difficult. Projects like land reclamation are usually much more complex and sensitive to government controls. Given the still fragile state of the economy, long-term lending is still not commercially viable.

The authorities are looking increasingly therefore to local banks for such financing and have set up a number of development banks to promote and finance development projects. Invariably these banks invest in projects with more thought to the political impact than their commercial viability.

This fundamental and disturbing conflict of perceptions and interest underlies and colours other problems.

Each time the authorities have attempted to introduce new measures there has been major disruption. The banking community had its first taste of this when Decree No. 15 was introduced in May last year. This set cash margins when opening letters of credit—25 per cent for foodstuffs, 40 per cent for raw materials, building materials, spare parts and some capital goods and 100 per cent for all other imports.

That was nothing, however, compared with the vacuum created at the beginning of last month by the introduction of amendments to Decree No. 15, in the wake of which most letters-of-credit business has ground to a halt.

The aim was to relieve the pressure on the Egyptian pound in the free market by requiring down-payments previously paid in dollars on categories A and B letters of credit (those for 25 and 40 per cent margins) to be paid in Egyptian pounds.

It appears that the Ministry of Finance instructed the central bank to implement the new measures without having the foreign exchange to cover the cash margins to be paid in Egyptian pounds, while foreign branches, unable to deal in local currency, have been excluded from dealing in all but category C imports (those that attract a 100 per cent cash margin) which continue to be paid in dollars.

Decision

Further confusion was sown by the decision to stop investment Law No. 43 companies exporting foreign currency notes under the terms of their Law No. 43 licence. This was described as a purely administrative measure to have all foreign exchange movements monitored by the central bank. The permission to export surplus banknotes is now given pro forma provided the applying bank is current with its letter of credit deposits, and provided that under another provision, it has deposited 15 per cent of its foreign currency reserves with the central bank. For three weeks last month banks were accumulating surplus dollars and one reportedly lost $150,000 in interest because it was unable to remit the banknotes abroad.

Clumsy implementation of the new regulations has also been self-defeating. The measures were tied in with a 20 per cent devaluation of the incentive exchange rate — the rate at which all non-government account banking is transacted — to 84 piastres to the dollar. The long-term objective is to make the Egyptian pound fully convertible. The devaluation narrowed the open market premium to less than 5 per cent, but it has since widened in the ensuing confusion and uncertainty to over 12 per cent.

Bankers complain that the authorities, by not consulting them before implementing the measures, not only lost valuable practical advice but contributed to the vacuum by not allowing the banks to at least take measures to ensure their smooth implementation.

Worries about the underlying state of the economy and the apparent inability of the authorities to make it go where they want it make bankers wary about the future — for all the good intentions of the Egyptian Government. They would like a clear statement of policy as to where they stand and what their role is to be. "The Saudis did it," said one banker "they told the foreign bankers they would have to Saudise within two years or move out. Then it was up to the banks to decide whether they wanted to stay on those conditions or not."

In the present uncertainty bankers tend to m ke the worst interpretation — as in the overt discrimination against foreign branches in the amendments to Decree No. 15, for instance.

Sensing the way things are going at least four foreign branches—Lloyds Bank International, Citibank, Bank of Oman and Arab African International Bank—are seeking to set up joint ventures. But the elimination of the foreign branch network would remove one important safeguard to Cairo's hard-won reputation as an open market and would not allay the foreign banks' worst fear that greater regulation will be an inevitable step towards controls.

Alan Mackie

Jordan

Meeting the challenge of rapid growth

CONTINUED HIGH growth rates in the sheer volume of business done are combining with a consistently activist central bank policy to place the Jordanian banking and finance sector face-to-face with its own self-imposed challenge of financing the bulk of the economy's requirements from domestic resources. In the coming nine months or so at least eight syndicated loans, bonds or equity offerings are expected to be floated on the Amman market, for a total of some JD 50m ($150m).

Such a figure is significant in Jordanian terms because it equals the total volume of the 14 previous syndications and bonds successfully covered since such instruments were introduced less than three years ago.

The Central Bank of Jordan three years ago stopped licensing new commercial banks (there are 16, with a total of 159 branches) in favour of licensing new merchant banks and finance companies. These institutions were thought to be the right vehicle to steer the country's traditionally very conservative bankers into new territory.

That claim has largely proved itself correct. The three merchant banks and one Islamic bank that have opened their doors in the past three years, combined with some innovative moves by such established institutions as the Industrial Development Bank, Arab Bank, Citibank and the Housing Bank, have pushed the Jordanian financial sector into new fields more in tune with the requirements of the economy, which continues to register annual growth rates of about 10 per cent in real terms in Gross Domestic Product. These new areas include syndicated loans and guarantees, bonds, certificates of deposit, forward deals, refinancing of outstanding Euroloans, portfolio management and equity financing. Secondary markets for bonds, certificates of deposit and commercial paper, merger financing and the issuing of convertible and floating rate bonds are expected to be developed over the next few years.

Brisk

An important catalyst to the brisk development of banking in Jordan has been the wide gap of nearly 10 per cent in interest rates on dinar loans and deposits in Amman and foreign currency loans and deposits abroad. This has worked two ways. It has prodded local borrowers to arrange dinar syndications and bonds in Amman at interest rates of between 8.5 and 11 per cent (compared to almost 20 per cent abroad), but it has also enticed banks to place more of their assets abroad to earn the higher interest rates on dollar accounts. This shows in the jump of banks' external assets last year from JD 77m to JD 201m.

It was partly in an effort to reverse this trend and to compel commercial banks to finance more of the country's developmental effort that the Central Bank of Jordan imposed compulsory investment requirements on commercial banks in August, for the first time ever. These require banks to invest 10 per cent of their total deposits in government bonds and treasury bills, though merchant banks only need to invest five per cent of their dinar deposits.

To compensate for the squeeze on liquidity these measures will induce, the Central Bank lowered the legal reserve requirement on banks' deposits by three per cent. Bankers complain that the new measures have effectively wiped out the nascent interbank market in Jordan that had grown slowly to reach about JD 75m at any one point, but the continuing high growth in the absolute volume of the banking sector is expected to make up the shortfall in the very near future.

The hallmark of Jordan's economy is a very high reliance on foreign sources of income, whether in workers' remittances, Government - to - Government cash grants, tourism receipts or development soft loans all of this foreign money works its way into the banking system, causing the money supply to grow at an annual rate of 30 per cent a year since 1975. Last year it dropped slightly to 24 per cent growth, and by June of this year the total money supply was JD 1.1bn commercial bank assets have grown at similar rates, reaching JD 1.2bn by mid-year.

The Central Bank's recent move on compulsory investment requirements aims to orient more commercial bank lending to productive projects within the context of the new five-year development plan. Sixty-one per cent of commercial bank loans continue to go to the commerce, property and construction sectors, while lending to industry, mining and agriculture remains relatively low. Specialised credit institutions fill in some of the gaps (especially in agriculture), but Dr Mohaamad Sa'id Nabulsi, governor of the Central Bank, says that the Government will continue to push the banks to finance a greater share of the development effort than they have done to date.

Another rapidly growing segment of the financial sector is the three-year-old Amman Stock Exchange, which registered a volume of transactions totalling JD 41m last year on 71m shares traded. A secondary market in shares is now well established, but a similar market for bonds is growing very slowly.

Rami Khouri

Lebanon

Locals outdo foreign rivals

THE LEBANESE economy has taken a fresh battering with an upsurge of fierce fighting in the spring and further Israeli attacks during the summer, but Lebanese banks have profited from their local knowledge and competitiveness to improve their position in the market at the expense of foreign rivals.

While the first three months of stability this year allowed the banking sector to pursue its remarkable expansion of 1980, April introduced a dramatically different setting of bitter clashes, blocked inter-city links and a 21-day closure of Beirut international airport.

None the less, deposits in banks swelled from around L£20bn ($6.4bn) this time last year to an estimated L£30bn at the end of last July, according to Dr Asaad Sawaya, chairman of the Lebanese Bankers Association.

In December 1980 deposits had risen to L£26bn. In the first three months of 1981 they went up by L£3.6bn but stagnated at around L£30bn mark in the four months of unrest until an Israeli-Palestinian ceasefire was achieved on July 24.

Mr Fuad Siniora, head of the Control Commission at Lebanon's central bank, qualified mounting deposits, however, by saying "some of it is real growth and some of it is due to the increase in the parity of the dollar to the Lebanese pound."

At times of crisis Lebanese residents have resorted to converting their holdings into foreign currencies, mainly dollars, to speculate in currency fluctuations and guard themselves against the depreciation of the pound.

The value of the dollar has increased from L£3.50 to L£4.77 in recent weeks. Out of the total of foreign deposits in the Lebanese banking system the dollar is the main currency, Mr Siniora added.

Of the L£30bn in deposits L£9-11bn are in dollars, maintains Mr Antoun Harik, Professor of Banking and Finance at the American University of Beirut and the American University College.

Mr Sawaya, usually an optimist on the status of banking in a country where most other sectors have been gravely affected, has said in remarks published in the local Press that Lebanon's banking system is confronting two serious bottlenecks as a result of recent political unrest.

The first, he says, is the diminished investment opportunities. The scarcity of sound lending to new projects in industry, agriculture and tourism does not solely stem from the reluctance of banks to grant medium-term loans but is also due to apprehension in the business community about the risk of venturing capital in new projects.

The National Bank for Industrial and Touristic Development, owned by the Lebanese Government as to 51 per cent and by private banks 49 per cent, was established in 1977 with a special loan of £L400m. But so far it has only handed out £L295m, apart from a modest five per cent annual interest, says Mr Anwar Abu Jawdeh of the credit department of the Banque du Liban et d'Outre-Mer.

Confirmed

Over half-a-dozen bankers interviewed confirmed a slowdown in new investment in recent months, despite the creation of the Institute National de Guarantie des Investissements to insure new industrial and touristic projects or to rebuild those damaged in the 1975-76 civil war.

Smuggling through Lebanon's 15 or so clandestine ports, no state protection against illegal competition, water and power shortages and a 30 per cent drop in productive capacity compared with pre-1975 levels are all contributing to the demise of Lebanese industry.

A second inevitable bottleneck that has been hard to avoid is high interest rates of 16-18 per cent. "This by itself is recessionary and discourages investment, but this is an internationally practised way of combating inflation or at least containing it." Mr Siniora points out.

Mr Sawaya argues that this method of reducing the money supply and increasing interest rates has negative effects which could be averted in more stable conditions by introducing incentives or by adjusting taxation. But the beleaguered Lebanese Government—possibly the weakest institution in the country —finds itself incapable of taking drastic measures and carrying them out with any efficiency.

Most banks in Lebanon have opted for easy profit by financing trade. Mr Yahak Tahmazian, the deputy representative of Manufacturers Hanover Trust, a representative office of a U.S. bank, said his company's exposure has been short-term, at a maximum six-month period between confirmation and final expiry date of letters of credit. He said his bank, like other U.S. banks in the country, was taking the situation on an ad hoc basis."

Several foreign banks, specifically U.S. banks, have taken a "wait-and-see" attitude to events in Lebanon with many of them reducing the scale of their activities to holding operations.

Chase Manhattan Bank reduced the number of its staff in 1979 and 1980. First National Bank of Chicago and Bank of America are believed to be thinking seriously of closing down. Executives and employees in clerical as well as senior positions are being released or demoted, sources added.

Mr Hank Velders, vice-president of Chase Manhattan, said it was "no secret" that his bank had to reduce its staff in the past two years "because we had excess staff relative to the volume of business." He aded that there were no new plans for staff reductions for the moment.

"The flight of corporations has affected our scale of operations but we are still making money," Mr Velders said. U.S. banks have opted to stay out of property financing due to lack of administrative and legislative set-ups needed for such business transactions according to the strict guidelines of their head offices.

The Central Bank has given foreign banks a free hand in doing business out of Lebanon on the books of Beirut operations and there are no limitations on lending in foreign exchange. "But we have reduced the ability of the banks to take foreign currency positions," Mr Siniora said. Previously the Central Bank used to allow banks to maintain twice their capital in foreign currency. Now this proportion has been reduced to 50 per cent, to reduce speculative business by banks. Bankers point out that the central bank has in no way restricted their commercial business but that it has limited the amount of hedging they could get to cover their banks' capital.

The main reason, however, for the shrinking role of foreign banks according to economic experts has been their inability to adapt to the Lebanese way of doing things. "To do profitable business in these difficult and trying times [banks] have to follow the pattern of local banks," Mr Tahmazian remarked. "We are among those banks which understood the Lebanese banking system and its way of doing things," he added. Mr Tahmazian has just relocated his office from the downtown Riad Solh Street near the volatile Greenline demarcating mainly Moslem West from predominantly Christian East Beirut to the luxurious Gefinor Center in the capital's western side.

Mr Alex Lindow Gillibrand, head of the British Bank of the Middle East of the Hongkong Shanghai group, sounds an optimistic note, unlike other foreign bankers working out of Beirut. "In view of the current situation we are satisfied with our operations," Mr Gillibrand insists.

Citing an increase in the number of his staff at BBME's five branches to over 300 and the opening of a new branch in Achrafieh in East Beirut last February, Mr Gillibrand says this is proof of his confidence in Lebanon's future despite other predictions of gloom and doom. "At one stage during the severe fighting in Achrafieh we were the only bank open. A few people who came in for shelter left as customers," he added.

"When things get difficult we do not decide to opt out but stick it out with our customers because we identify with the communities we serve," Mr Gillibrand says. BBME has had the foresight like many local banks to develop branches as access roads proved difficult for residents in other parts of the city or for those living outside Beirut.

According to Mr Siniora large banks with good retail business and a large number of outlets and branches have done fairly well. "While many U.S. banks are rationalising their operations in Lebanon, Lebanese-owned and Lebanses-Arab banks as well as French and to some extent British banks have improved their position in the market," he noted.

There are over half-a-dozen Lebanese banks whose assets are over £L1bn, Mr Siniora says. A lot of business is gradually going to the Lebanese, not only because of their more flexible attitude towards small businessmen and recognition of family prestige and connections but because of improved services.

Nora Boustany

United Arab Emirates

Welcome emergence of central bank as supervisor

IN DECEMBER the United Arab Emirates celebrates both the 10th anniversary of its emergence as an entity and the first anniversary of the opening of its central bank. The discrepancy in time says much about the difficulties encountered in achieving a proper federal relationship among the individualistic seven member states. Progress has been slow on many fronts but now here more so than in the establishment of a meaningful authority over banking and monetary affairs.

The emergence of the central bank out of the former Currency Board points to tighter control of the banking sector in what is rated as one of the most over-banked countries in the world. Major Central Bank decisions are referred to a seven-man board of directors—one man for each Emirate. While this process too may be slow and contain some political element, the central bank during its nine months of operation has made its presence felt.

Continuity

The chairman of the board is Sheikh Surour al-Nahyan. A prominent member of Abu Dhabi's ruling family and chamberlain to the presidential court, he is also on the board of the Abu Dhabi Investment Authority (ADIA) and of the Abu Dhabi Fund for Arab Economic Development (ADFAED). Continuity has been achieved by the former managing director of the Currency Board, Abd al-Malik, al-Hamar, holding the post of governor.

The arrival of a central bank with some financial and political clout is timely for a banking sector whose history since 1973 is marked by turbulence and extreme growth. A boom period from 1973 to 1977 led to the UAE banking crisis of 1977. At a time of acute liquidity shortage in May that year two banks, the Ajman Arab Bank and the Janata Bank, were temporarily forced to close down. Rising international interest rates, the absence of exchange controls and the low interest rate prevailing in the UAE led to massive fund outflows.

Given the number of banks operating in the Federation and competing for limited funds, it was surprising that the system survived as well as it did. Now, in 1981, in a country with little over 1m people there are still 53 banks and around 350 branches.

Apart from being charged with the normal range of duties, central bank has a mandate to put a more orderly pattern of growth into the local banking community, to ensure no repetition of the 1977 crisis, to maintain the stability of the dirham and to develop the role of indigenous banks. For apart from the mainly government-owned National Bank of Abu Dhabi, the other locally incorporated banks experience fierce competition from the many foreign bank branches.

Unlike the Currency Board, which was starved of petrodollars, the central bank is expected to be well endowed. It will apparently receive half the emirates' revenues each year. The government's permanent deposits of interest-free foreign currency are scheduled to reach $2bn by end-1982 and then rise by 10 per cent annually to $4bn. Its capital showed marked increase in the first quarter of 1981 from Dh 594 ($238m) at the end of 1980.

The central bank has been relatively successful in its efforts to control dirham outflows. In action similar to the Kuwait central bank's protection of the Kuwaiti dinar, it has leant heavily on banks lending dirhams offshore, stipulating that any bank lending the UAE currency to non-resident banks should keep back 15 per cent of the amount involved and deposit it interest-free with the central bank.

This has effectively raised the price of dirhams in the Bahrain offshore banking units (OBUs) by between 2 per cent and 2.5 per cent. It has brought dirhams back into the country and, by a separate prohibition on lending dirhams to foreign banks has stimulated indigenous bank activity.

Additional measures to minimise fund outflows, including frequent revaluations of the dirham, have been limited. Interbank rates have been allowed to move according to the market—even to 15 per cent or 16 per cent for three-month money. Dirham swap facilities have been available at a discount.

Not only the dirham but also local banks have come under the central bank's scrutiny where controls have been imposed by inspection of balance sheet ratios. The bank's supervisory department is viewed with some scepticism, however, by bankers there, who comment that an inspection is as good as those undertaking it.

There is also a plan to lay down that banks should have a minimum capital of Dh 140m.

Glaring

Certainly, there is a glaring difference between the National Bank of Abu Dhabi (NBAD), with assets of over $5bn, and the tiny Ajman-based Bank of the Arab Coast with a capital of only Dh 15m and total footings of a mere Dh 54m ($14.7m). This policy has already produced restructuring and capital increases in such banks.

In July 1981 the central bank took on the foreign banks, which enjoy a disproportionate amount of total deposits and business, announcing that within two years no foreign bank would be permitted more than eight branches. According to Mr Hamar, this will encourage local banks' branch networks. In addition, along with an earlier directive to Government departments to deposit funds with a greater number of local banks other than NBAD, local banks should scoop up deposits at present received by foreign banks.

Banks affected are the Arab Bank, the British Bank of the Middle East, the Chartered Bank, Grindlays Bank, Bank of Credit and Commerce International (BCCI), the Habib Bank, the United Bank, Bank Melli and Bank Saderat. Whether any would be willing to create a UAE majority-owned subsidiary or set up a local holding company remains to be seen.

At the same time Mr Hamar has lifted the 1977 moratorium on local banks opening new branches. Further encouragement to them comes with fresh permission for two banks, the Khalij Commercial Bank and NBAD, to issue dirham certificates of deposit (CDS), and at rates above the central bank ceilings on dirham time and term deposits. These ceilings, imposed in November 1980, range between 6.5 per cent for time deposits to 10.5 per cent for money of one year or more. The CD terms range for periods from three months to three years and are more attractive than the last batch approved by the then currency board.

This permission comes when the Government is pumping funds into the country and economic activity is on the increase. A compensation programme for land, housing and construction will by its completion have transferred Dh 2.5bn into citizens pockets. High capital expenditure in the federal budget and the green light for intermediate industrial projects (including petrochemicals), not to mention an industrial bank providing concessional loans, will keep funds moving. "We've money coming out of our ears," said a banker there. "The problem is how best to use it."

Meanwhile alarm over one novel development appears to have been partially allayed. A young Dubai sheikh short of funds to pay capital and interest on a $16m syndicated loan lead-managed by NBAD, went to court claiming interest payments were against the Shariah (Islamic law). Bankers, seized for some months with dread have been reassured by two statements. Sheikh Surour has said such cases involving loan documentation should be tried in civil, not religious courts, and Abu Dhabi's highest court has ruled that interest is payable in suits brought in civil courts on loans with interest written into the documentation.

But the two cases are still pending. The sheikh is still taking NBAD to court in Abu Dhabi and NBAD is suing the sheikh in Dubai.

Caroline Montagu

LEADING CENTRES

Articles on this and the following two pages discuss relationships with world centres from London to Tokyo.

London

Main global contact point

ARAB BANKS AND FINANCIAL INSTITUTIONS IN LONDON

	Status	Parent company's headquarters
AFARCO Investment (Kuwait-London)	Branch	Kuwait
Allied Arab Bank (two offices)	UK-registered	London
Al-Mal International Services	UK-registered	Luxembourg
Al Rajhi Company for Islamic Investments	UK-registered	Riyadh
Al Saudi Banque (two branches)	Branch	Paris
Altajir Limited	UK-registered	Grand Cayman
Arab Bank (three offices)	Branch	Amman
Arab Bank Investment Company	UK-registered	London
Arab International Finance Company	UK-registered	London
Arinfi-Arab International Finance	UK-registered	London
Bank of Oman	Branch	Dubai
Byblos Arab Finance Bank (Belgium)	Branch	Brussels
Capital Guidance	UK-registered	Luxembourg
European Arab Bank	UK-registered	Luxembourg
First Arabian Corporation	Branch	Luxembourg
Galadari Finance Company	UK-registered	Dubai
Gulf International Bank	Branch	Manama
International Resources and Finance Bank	Branch	Luxembourg
Jamal Trust Bank	Branch	Beirut
MEA Investment Company	UK-registered	Luxembourg
National Bank of Abu Dhabi (two branches)	Branch	Abu Dhabi
Oriental Credit (two offices)	UK-registered	Luxembourg
Qatar National Bank (two branches)	Branch	Doha
Rafidain Bank	Branch	Baghdad
Saudi International Bank	UK-registered	London
SCF Finance Company	UK-registered	Geneva
UBAF Bank	UK-registered	Paris
UBAF Financial Services	UK-registered	London
United Bank of Kuwait	UK-registered	London

FOUNDED IN London last year the Arab Bankers' Association has over 200 members resident in Britain and another 60 honorary ones abroad. On its executive committee are senior managers of the Crocker National Bank and the Dresdner Bank, as well as the Al Rhaji Company for Islamic Investments and the Rafidain Bank. At first sight it might seem no more than a social club grouping expatriate bankers who share the same mother tongue.

On the contrary, it is an Arab *International* association, implicitly recognised as such by the International Monetary Fund and the World Bank which issued an invitation to the ABA to send a delegation to their annual meeting in Washington this week.

Many of the leading figures in Arab finance actively backed the establishment of the ABA. Most of the governors of central banks and monetary authorities are amongst the honorary members. Already the association publishes a magazine. Housed in a temporary quarters in Hanover Street it plans a library and a research centre to give a service to its members when a more permanent home is found. The aim is also to institute training courses for Arab bankers.

London was chosen because there is probably the biggest concentration of senior Arab bankers anywhere and the city is the main contact point for them globally, according to Mr Bachir Zoubari, group manager of the European Arab Bank. From both points of view, it could be said that the British capital has assumed the role that Beirut used to play until the civil war broke out in 1975. More substantively London is the centre of the Eurocurrency market. Any bank of any significance or with pretensions to enter syndicated loan and bonds business needs a presence there.

A year or so after the Arab Bank, the Amman-based institution, opened its first London branch in 1972, the late Mr Abdul Hameed Shoman, the founder, told me that he did not feel the expansion was justified because of the expense and he had reluctantly agreed to it. He explained that he was perfectly satisfied with the Midland Bank as a correspondent. The only other Arab banks in London at the time were the Rafidain Bank of Iraq; the United Bank of Kuwait, which is owned by the states commercial banks and opened in 1966 to represent their interests; and UBAF Ltd., the affiliate of the Paris-based group, in which the Libyan Arab Foreign Bank and Midland each have a 25 per cent stake.

At the end of the 1960s the British authorities did not give the kind of encouragement that the French did to attract Arab banks through promoting the consortium concept. In the wake of the 1973-74 oil price explosion there was no noticeable clamour on their part of Arab institutions to establish a presence in London where applications came under tougher scrutiny anyway.

Now there are 18 wholly or predominantly owned Arab banks there, four of them registered in the UK. Another 11 have representative offices and most, if not all of them, are assumed to be upgraded to the status of full office, as the Byblos Arab Finance Bank was early in August. In addition there are 11 investment and financial companies.

A number are said to be in the queue for permission to put up their brass plate and get a foothold in the golden Square-mile. Those present include the high-flying banks in the field of investment banking and particularly, in the arrangement of syndicated loans—the Arab Banking Corporation, Gulf International Bank, Saudi International Bank and Arab Latin American Bank.

Some like Rafidain and the Qatar National Bank, are preoccupied with trade finance while serving ordinary customers holidaying or passing through London is a preoccupation for many.

It all amounts to a tribute to London as a key financial centre. So far it has been a priority location, despite high costs and taxation, placed before a presence in New York. It remains to be seen whether this will continue to be so when the leading American money market launches its "international banking facility," or off-shore experiment in December.

Richard Johns

Paris

Reactions to Mitterand regime

M. FRANCOIS MITTERRAND'S dramatic election victory in May over President Giscard d'Estaing caught the financial community off its guard. One of the most persistent questions asked in the four months since—and one that bears significantly on the role of Paris as a banking place—concerns the reaction of Arab interests which have built up their presence in France since the end of the 1960s.

Quite apart from foreign policy considerations (the new President having come in with a reputation of being much more sympathetic to Israel and the Camp David agreements than his predecessor) there has been the question of the psychological impact on bankers from the more conservative Arab states of a Government bent on nationalisation and with Communist Ministers in its ranks.

Jeopardised

Fears have been stirred up by the major French merchant banking groups, which face takeover by the state. Marshalling every argument to pull whatever they can of their wide-ranging empires out of the fire, they have claimed that their present and planned links in the Gulf will be jeopardised by nationalisation.

Arab bankers in Paris, however, have a different impression and regard the future of Franco-Arab financial ties with much greater equanimity.

While there has been no fresh inflow of Arab funds into France, into either property or industry. Arab investors have so far adopted a wait-and-see attitude. Subscriptions for the new Government's first state loan issue this month showed a relatively low level of Arab purchases compared with previous issues. But there is equally no sign of existing investments or deposits being pulled out on a large scale.

The Arab presence, according to a senior member of the Arab banking community, would certainly be affected if Paris were to lose its position or image as a financial centre. But he was optimistic that it would not.

Bankers are equally positive about the evolution of President Mitterrand's foreign policy. The big growth of Franco-Arab financial ties came as a result of a decisive pro-Arab switch in policy in the closing years of the de Gaulle era and the rapid build-up in French trade with the Middle East, particularly with the strong export backing offered by France's Coface credit guarantee Board.

The Mitterrand Government has made every effort to show that it wants to maintain ties—especially commercial—with the Gulf region.

The one negative factor has been its decision to implement more fully the French law prohibiting anti-Israel boycott clauses in contracts. The law already existed but the previous Government arranged for special dispensations. French companies in the public works field, for instance, say this has begun to affect their position in international tenders.

This does not, however, overshadow the gestures made to woo Arab sympathies. King Khaled was the first head of state to make an official visit after the election, and President Mitterrand is to visit Saudi Arabia at the end of this month as his first trip outside Europe except for July's Western Summit in Ottawa.

France has made clear it is ready to supply Iraq an experimental reactor to replace the one destroyed recently in an Israeli air force raid, subject to firm safeguards against proliferation of nuclear weapons. The replacement reactor, which Saudi Arabia has offered to finance, was seen by the Iraqis as a test for future relations with France.

At the same time, the Government showed itself willing to send Iraq more Mirage fighters, helping to dispel Arab concern about French arms export policy. The principles expressed by the French Socialists with regard to arms sales have not had any negative impact so far on any deals with Arab countries.

Inhibiting

The main factors inhibiting the growth of Paris as an Arab financial base were already there before the change of Government. The French capital has never looked like challenging London as a centre for recycling oil funds. This is partly because of the relatively narrow range of financial instruments available for investment. Banking activity has also long been restricted by tight curbs on credit growth.

Arab banks, whether fully- or majority-controlled by non-French shareholders, fall outside the nationalisation of the banking sector and are little affected by the stringent exchange controls brought in after the election. The main area in which they risk being hit is increased taxation of bank profits.

At the main Arab-Western consortium banks business in property and export finance is expected to continue, although Arab investors show some reservations about investing in French shares and bonds.

The three main consortium banks have all evolved considerably in recent years after in their early stages concentrating on the business of underwriting and managing international loans.

The only one which has kept up a major emphasis on the Euroloan sector is UBAF (Union de Banques Arabes et Financaises), which by no coincidence is by far the biggest in terms of assets, has the most impressive list of state banks network of international affiliates.

Arab-Bank, the oldest and the smallest of the three, set up in 1969 with mostly private Arab shareholders, has cut back sharply its reliance on the inter-bank market. The bank is currently in the throes of a reorganisation of its shareholding structure, subject to approval by the French authorities, which will make it an entirely Arab joint venture.

BAII, (Banque Arabe et Internationale d'Investissement), also shunning the heavy competition and narrow margins of the bond business, has taken on the role of a specialised merchant bank, basing its reputation on quality rather than quantity.

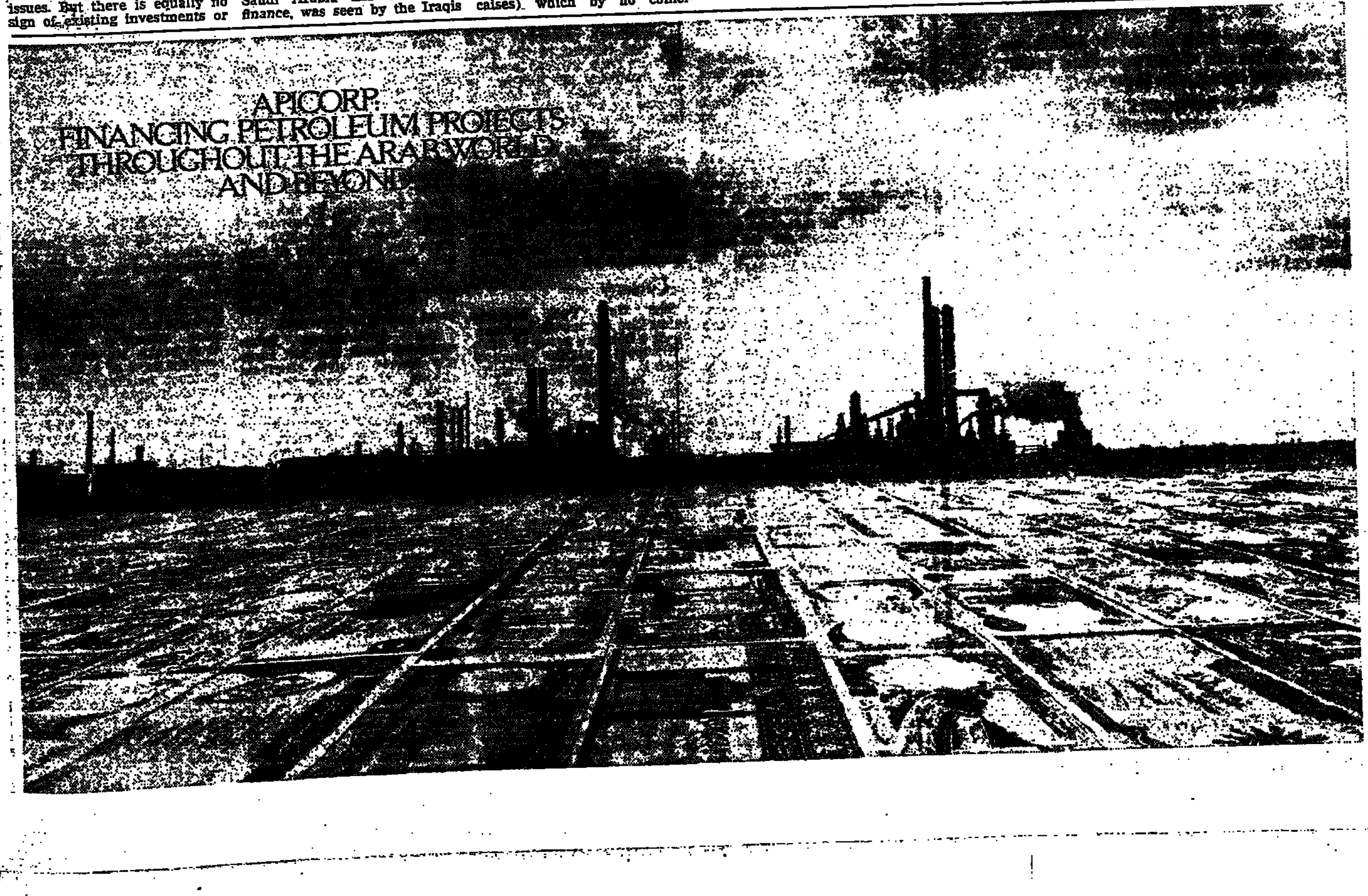
These banks have been joined by other large outfits, including Banque Intercontinentale Arabe, an Algerian-Libyan joint venture and Al Saudi Banque, which has made big inroads into petrodollar recycling.

The existence of the consortium banks has not prevented shareholding interests from setting up on their own account. Arab Bank, for instance, the grandfather of private banking in the Arab world and one of the founder members of the UBAF consortium, has an active branch largely devoted to commercial services.

A number of smaller refugee banking interests from the Lebanon bring the total of Arab banks in France to about 35.

The most conspicuous area of Arab investment activity to date remains the property market. The villas of Cannes—a paradise for French burglars—bear witness to the fact that the spectre of Socialism has not yet been enough to chase Arab money away.

David White



Frankfurt

Heavy dependence on Saudi oil and finance

IN JUNE this year Saudi Arabian officials found themselves vigorously denying that the world's leading oil exporter was baulking at further investment in D-Mark denominated German Government debt.

The rumours came in the wake of what from the Saudi point of view was an unsatisfactory visit by West Germany's Chancellor Helmut Schmidt to the Kingdom in April. Herr Schmidt had been unable to give the Saudi Government any commitments on arms sales to the Saudis, in particular the 300 Leopard II tanks which they had expressed an interest in buying.

Although the rumours proved to be false, the anxieties stirred up at the time have served to highlight both the recent havy dependence of West Germany on Saudi oil and finance as well as the deepening financial, commercial and political links which Germany has been establishing with the Arab countries in the past decade.

This in turn is making it more difficult for the German Government to follow its longstanding policy in the Middle East of avoiding direct involvement in issues relating to the Palestinian question and sheltering instead behind joint EEC initiatives, a policy which has been dictated in part by Germany's historic debt to Israel. The vicious attacks which Israel's Prime Minister Begin directed at Herr Schmidt and the German people against the background of the discussion of arms sales to the Saudis, albeit in the midst of his own re-election campaign, underlined how sensitive the Israeli Government is to even this slight shift in the political wind.

Links

The strengthening links between West Germany and the Arab world reflect both the post-1973 oil price surge and latterly the economic problems of Germany itself in the wake of the second great escalation in oil prices in 1978-79. But the development needs to be seen to be to in the context of longer term commercial ties. Banks such as Deutsche Bank and Dresdner Bank, for example, were deeply involved in the financing of railways in the Middle East at the turn of the century, while West German construction companies had begun to play a bigger role in places like Saudi Arabia before the 1973-74 oil price surge.

But the Arab relationship has taken on added importance in the past two years, especially because of the Federal Republic's heavy dependence on imported oil for its energy needs and the impact this has had on its international payments position. The West German oil import bill will have increased from DM 9bn in 1970 to DM 90bn (on current projections) by the end of 1981. This increase was a major factor in the DM 30bn current account deficit reported by West Germany last year and the plunge of as much as 30 per cent in the value of the D-Mark against the dollar in the past 12 months.

Against the background of these problems not only has Saudi Arabia remained the biggest oil supplier to the Federal Republic; along with other Opec countries it has become a heavy purchaser of German Government debt and has played a vital role in helping to finance Germany's huge current account deficit and offset the currency outflows which were such a problem in late 1980.

According to the Bundesbank's annual report last year some DM 23bn of long-term funds were raised directly or indirectly on international capital markets. Half this sum was made up by borrower's notes of the Federal Government placed mainly in Opec countries. Some DM 6bn alone of such notes were placed directly with Saudi Arabia.

In addition to these rapidly expanding financial ties at Government level, private sector links with specific Arab countries have deepened. Since 1974 West Germany exports to Arab countries—Saudi Arabia and Iraq in particular—have grown dramatically. Between 1974 and 1978 the trade balance was positive in Germany's favour despite rising oil imports. In the past two years it has become negative.

Fortunately there has been a surge in German exports to Arab countries in this period and particularly over the past year. Otherwise the German trade deficit could have been much worse. Thus in the first six months of the current year German exports to Saudi Arabia increased by 26 per cent to DM 2.6bn and to Iraq by 73 per cent to DM 2.5bn compared with the corresponding half of 1980.

Thus despite the rising cost of oil (imports from Arab countries are 91 per cent oil) the trade deficit with Arab countries has increased only slightly from DM 4.2bn in the first half of 1980 to DM 4.7bn in the first half of this year.

Arab countries have, however, in this period become Germany's most important single trading partner after Europe, displacing North America. Exports to Arab countries totalled DM 2.5bn in the first half of 1981; imports were DM 17.3bn.

This catalogue does not exhaust the growing German-Arab relationships. Apart from their role as intermediaries on behalf of their Government with Arab lenders, the big German banks have broadened their ties with Arab countries, reflecting both their own international role and the oil wealth of the Arab oil producers.

Recycled

The big banks of course receive deposits from Arab banks and central banks and have thus played a role in the recycling of Opec current account surpluses. On behalf of their German export customers they have been conducting multi-billion D-Mark business in giving performance guarantees on behalf of German companies involved in projects in the Middle East and in giving guarantees against, for example, down-payments.

The complexity of the German bank's relationships in the Middle East is growing too as a result of the expanding role of Arab banks in world finance and the maturing of the Middle East banking system itself. Bilateral relationships have had to be built up with Arab banks —many of them newly established or rapidly expanding— which have become more aggressive competitors in the Western financial markets.

Different cultural traditions, the lack of a traditional Western pattern of bank supervision and the intricate relationships between these financial institutions and their governments has required and will require a sensitive hand in developing these ties. As one banker put it, however: "It has not been difficult up to now. With the exception of one case all the banks in the area have behaved like normal members of the international banking club."

Some West German banks too have stakes in consortium banks with Arab partners. Deutsche Bank, the biggest German bank, is one of the seven shareholders, along with the Saudi Monetary Agency and Morgan Guaranty Trust, in the exclusive Saudi International Bank, and was a founder in 1972 of the European Arab Bank. Commerzbank has a 25.1 per cent in UBAE Arab German Bank and a 5 per cent holding in the Saudi Investment Banking Corporation.

Some Arab countries too have been active portfolio investors in German shares. Kuwait has bought a 10 per cent stake in Volkswagen of Brazil and has built up its stake in the big German metal concern, Metallgesellschaft to 20 per cent.

Some German bankers see in the closer financial links the opportunity to give the Arab countries and their banks a better understanding of and a bigger stake in the stability of the Western financial system, as well as scope for profitable business ties. But they are aware too that these direct commercial and financial links have made modifications in German foreign policy towards the Arab world in the direction of more bilateral exchanges with Arab countries both necessary and inevitable.

Finesse

Such relationships are clearly going to have to be handled with finesse, not only because of the question of Israel but also because of the potential domestic repercussions. As was evident at the time of Herr Schmidt's visit to Saudi Arabia there are many Germans who fiercely oppose arms sales abroad (which is hardly surprising given the strength of the peace movement) and even more who believe that exports to areas of tension, in particular the Middle East, need to be avoided.

But above all Germany, with its heavy dependency on Arab oil, is interested in trying to ensure that another war does not disrupt oil supplies. It is unlikely, therefore, to support any initiatives which might risk upsetting the balance in the region.

Stewart Fleming

New York

Arab banks putting down roots despite all the restraints

ARAB BANKS aspiring to open in New York face a bewildering array of limits and restraints, state and federal regulations. Nevertheless, as Arab financial institutions increase their participation in the process of recycling Opec surpluses and handle a larger share of the investment of the wealth generated in the Middle East, a small but growing number of Arab banks have put down roots in New York.

The city, says Mr Fakhruddin Khalil, the Syrian-born first executive vice-president of UBAF Arab American Bank, has all the prerequisites an Arab investor might want in a major financial centre, including safety, stability, availability and diversity of investment opportunities and an appropriate institutional framework. It has the distinct advantage over Europe in the sheer size of the American market and the large potential for investment in property, equities and bonds.

Despite a great deal of rhetoric to the contrary, Arab investors did not withdraw their funds from New York banks in the wake of the freeze of Iranian assets by the U.S. Government. Nor do Arabs worry that this might be a precedent, says Mr Khalil, who contends that the U.S. market is a "must" for Arab investors because of its stability, size and diversification.

Preliminary figures released by the U.S. Treasury suggest that Opec had more than $60bn invested in the U.S. while the Federal Reserve reports a further $30bn in the foreign branches of U.S. banks at year-end.

A $30bn statistical discrepancy reported by the Commerce Department suggests that there may have been very large inflows that were not accounted for. Congressional hearings scheduled for September 22 and 23 were designed to find out exactly what is wrong with the Government's data collection and to what extent Arabs are investing over the longer term. Estimated holdings at the end of June of U.S. Treasury obligations collected in the "other Asia" category, which includes the oil-producing countries, amounted to $21.4bn.

Mr Khalil insists that Arabs seeking to establish banking operations in New York or to invest in American banks will not run into difficulties if they go through the proper channels. Mr Sulaiman Olayan, a Saudi entrepreneur, purchased a 7.5 per cent interest in the First Chicago Corp. without incident. His daughters are bankers in New York also. Ms Hutham Olayan works in the representative office that Saudi International Bank, the London-based consortium in which the Saudi Arabian Monetary Authority has a 50 per cent interest, opened in New York on May 7. Ms Lubna Olayan, having graduated from the Morgan Guaranty training course, looks after her father's interests in the states.

Uneasy

The New York banking authorities are uneasy, however, about a bid by a group of Arab individuals to acquire Financial General Bankshares, a multi-state bank holding company with subsidiaries in Virginia, Washington DC, Maryland and Tennessee as well as in New York. The Federal Reserve has already granted approval for the acquisition of the $2bn in-asset holding company, but hearings were to be held in New York on September 21.

UBAF Arab American Bank, chartered by New York state in 1976, has 11 Arab bank shareholders, including the central banks of Egypt and Iraq, five Arab consortium banks and four American banks — Bankers Trust, First Chicago, Security Pacific and Texas Commerce Bankshares. By the end of August that bank had $475m in loans on its books and $500m in deposits, roughly half of which came from financial institutions in the Middle East.

Mr Khalil stresses the need to develop domestic banking activities, capitalising on specialisations such as gas inventory financing for utilities, the financing of Arab projects, including bid bonds, performance guarantees and bridge financing, and the servicing of Arab investors to build up fee income. The bank also participates in syndicated loans with other banks in the UBAF group, the $700m loan to Mexico completed this summer being a prime example.

UBAF Arab American is also active in Eurocurrency and Arab currency trading, and hopes to go into gold and silver trading for customers as well.

Although UBAF's Euro-Arab consortium rival BAII is expected to open a representative office in New York shortly, the major new thrust will be in direct branching by the Arab banks. The Gulf International Bank, whose shareholders include the governments of Bahrain, Iraq, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates, pointed the way by opening a federally chartered branch last October.

The Arab-African International Bank has just formally opened a state chartered agency. At the same time the Arab Banking Corporation, a Bahrain-based institution with Libyan, Kuwaiti and United Arab Emirates interests, has won approval for a federally chartered branch in New York. Still pending is a bid by [illegible] Bank to establish a federally chartered branch in the state.

While federal chartering is seen as the best approach by banks from countries that do not offer banking reciprocity to New York banks, Saudi Arabia and Kuwait being prime examples, the whole concept of federal branching is being challenged in the courts by state bank supervisors.

Costi Farid Chahlaoui, the Syrian-born American-educated manager of the New York branch of Gulf International, has no doubt that Arab banks will take advantage of the opportunity to establish international banking facilities in New York on December 3.

Since banking in Bahrain is tax-free, Gulf International will not necessarily be tempted to book more loans in New York. Furthermore, under the regulations the legal lending limit will be based on the capital of the branch and two-day withdrawal notice may discourage very short-term investors.

The attractions of international banking facilities are greater for UBAF Arab American, which is considering opening such a facility, although it already has an offshore banking branch in the Cayman Islands. The bank is also studying the possibility of opening loan production offices in various U.S. cities in preparation for the possible establishment of Edge Act subsidiaries.

Attractive

According to Mr R. Desmond McVeigh, manager of the Saudi International Bank's representative office, recent regulatory trends in the U.S. and the growth of international banking business have made New York a more attractive market for Arab banks. He says that the establishment of a branch is a "distinct possibility," although it will probably be a few years down the road. However, his presence in New York has already proved to be very beneficial.

Shareholders in his bank comprise a blue-ribbon group of international banks, including Morgan Guaranty.

With even American banks having their Middle East regional offices overseas—first in Beirut and then in London—American corporations have not been accustomed to find Middle East expertise in New York. But with the advent of Arab banks, steeped in their own culture and well-versed in the complexities of doing business in Arab countries, that is changing gradually. More important decisions relating to Arab financing, trade and investment are now being taken in New York or San Francisco, observes Mr Khalil.

Alena Wels

Tokyo

Plans for joint projects

JAPAN'S FINANCIAL community was, to put it mildly, caught unawares by the first oil crisis. But the task of catching up in the Middle East — now a (if not *the*) prime source of foreign business — is beginning to bear fruit.

Arab investors appear firmly committed to diversifying into Japan and the rest of Asia. The more innovative Japanese companies are working on ways of maintaining the flows of petrodollars through their hands.

Japanese banks have found their commercial business with the Middle East growing rapidly in proportion to the growth of trade, particularly exports (which were up 16 per cent in the first half this year to $8.2bn). Japanese banks regard increasingly the Arab World to be a lucrative source of business for industrial project financing.

Of perhaps greater interest is the prospect envisaged by Japanese financiers for attracting substantial amounts of Arab money into investment projects in Asia and the Pacific Basin, now the fastest growing economic region in the world.

Nomura Securities, which opened a representative office in Bahrain last year, is putting together an ambitious "project financing" scheme which would involve petrodollars investment in mainland China.

The Nomura scheme will combine Arab investment (or other international funds) with Japanese technology aimed at establishing joint ventures in light industry in China. Japanese companies in such fields as plywood, textiles and light machinery are to establish the joint ventures, using Arab financing. Under the Nomura plan output would be exported to Japan. The group has already sent two delegations to China to lay the groundwork.

JAPANESE GROUPS ISSUING BONDS IN THE ARAB MARKET 1979-81
($m)

Company (guarantor)	Date	Type	Amount
Mitsubishi Heavy Industries (Mitsubishi Bank)	July 1979	Straight bond, public placement	30 (KD 10m)
Niigata Engineering Company (Dai-Ichi Kangyo Bank)	February 1980	Straight bond, private placement	21 (SR 70m)
Bank of Tokyo—subsidiary credit company (Bank of Tokyo)	July 1980	Floating straight bond, public placement	50
Ito-Yokado Company	July 1980	Convertible bond, private placement	23.4 (Y5bn)
Tokyo Sanyo Electric Company	August 1980	Convertible bond, private placement	30
Jusco Company	September 1980	Convertible bond, private placement	23.4 (Y5bn)
All Nippon Airways Company (Industrial Bank of Japan)	November 1980	Straight bond, private placement	40
Daishowa Paper Manufacturing Company (Daiwa Bank)	November 1980	Straight bond, private placement	15
Nippon Sheet Glass	December 1980	Convertible bond, private placement	15
1980 total			216.8
Ito-Yokado Company	March 1981	Convertible bond, private placement	25
Caterpillar Mitsubishi (Mitsubishi Bank)	March 1981	Straight bond, private placement	15
Orient Leasing Company	April 1981	Straight bond, private placement	10
Kawasaki Heavy Industries	April 1981	Yen-denominated bond, private placement	45.6 (Y10bn)
Industrial Bank of Japan—subsidiary credit company (Industrial Bank of Japan)	May 1981	Floating straight bond, public statement	30
1981 total (January-May)			125.6

Source: Nomura Research Institute

Combinations

On a broader scale, Nomura foresees combinations of Japanese technology, Asian resources (including labour), Arab money and its financial management throughout the region.

Relations between the Japanese financial world and the Arab world were all but non-existent before the first oil crisis. In the two decades before the emergence of Opec as a force to be reckoned with, Japan's presence was limited to erstwhile branches of the foreign exchange specialist, Bank of Tokyo, in Beirut and Tehran, and a BOT representative office in Egypt. Among the most powerful Japanese banks only the Industrial Bank of Japan (IBJ) showed any interest in peddling their capital notes to Arab investors.

That all changed with the financial crises which hit Japan in the wake of the oil shock. Then, as now, government-to-government links played a key role in establishing channels. In 1975 the Ministry of Finance in Japan arranged for a $1bn five-year deposit for cash-hungry banks from the Saudi Arabian Monetary Authority.

Grateful at the time, despite the rather high cost of the loan, the banks "politely" (and, in retrospect, unwisely), declined to renew the deposit which came due, ironically, just before the 1979 Iranian revolution touched off a second oil and balance of payments crisis. It took strong incentives by the authorities in the spring of 1980 (including rule changes to make deposits with Japanese banks attractive to Arab governments) before oil money started to flow into Japan. (In fact the net inflow into stocks and bonds hit a record monthly pace of over $1bn last autumn.)

The biggest city banks can now claim deposits from the Middle East of about $2bn each, and a number, along with securities houses, have been entrusted with custodial accounts for Arab investment in Japanese Government and corporate bonds.

In addition the Bank of Japan still maintains a privileged link with SAMA on sales of government bonds from its own warehouse.

Though precise estimates are hard to find, Japan probably raised its take of new Opec investment to over 10 per cent of the total last year. Cumulatively, though, Japan is believed to account for only 7 per cent of Opec's total investment.

Japanese analysts believe that the Arabs will continue, in the long run, to increase their investment into Japan. This is despite what now appear to have been some gross over-estimates of just how much the surplus would be available for investment this year. Whereas earlier this year many economists forecast the total Opec surplus at over $100bn, it now looks as though it will be closer to $50bn-$60bn.

Shortfall

Moreover, it is likely that Japan's share of the smaller Opec pie, after a respectable performance earlier in the year, will fall short of last year.

The optimists, however, point to the conventional wisdom that Arab investors remain committed to a spreading of their investment away from Europe and the U.S. The rule of thumb in Japan is that over the coming five or ten years an optimal distribution of funds will leave Japan with 15-20 per cent of Opec money. Kuwait and Saudi Arabia may have already passed the 10 per cent mark. Regardless of the current reappraisal of Opec short-term financial prospects, Japan and the rest of Asia (which Japan likes to see as its backyard will no doubt feel more of the weight of Arab wealth.

The signs that Japanese banks and securities houses have woken up to the promise of Opec investment now abound, though it is still mildly surprising to realise how recent the moves are.

There is still only one Japanese bank branch office operative in the Arab world. The Bank of Tokyo (having stopped branch business in Beirut) opened an offshore banking unit in Bahrain in January 1980, replacing the representative office it had operated since 1977. Since then 12 Japanese banks have rushed to follow suit. Two Japanese securities houses have also opened offices.

A number of the banks would like to obtain banking licences in Bahrain, and the Bank of Tokyo is seeking permission to open a representative office in Abu Dhabi.

In additional Nomura Securities is seriously thinking of trying to upgrade its representative office in Bahrain to independent investment bank status. Yamaichi Securities has already opened a representative office, while Nikko and Daiwa are in the process of doing so.

Japanese banks and securities companies have otherwise so far played only minor roles in international joint ventures involving the Arab banking world. Likewise, the only Arab-related bank with an office in Tokyo is UBAF.

Richard Hanson

Switzerland

Traditional ties strengthened

SWITZERLAND HAS traditionally been an important turntable for Arab funds. The political and monetary stability of the country, the sophistication of its banking system and the popularity of Geneva or Zurich as a European *pied-à-terre* have all contributed to the creation of strong financial ties. Several Arab banks run Swiss operations, while there is a widespread network of Swiss bank offices in the Middle East and North Africa—the Big Three alone run a total of 14 branches, representations and subsidiaries in the region.

The significance of the Swiss connection has become much greater with the creation of huge petro-money surpluses within the Opec. The Arab world needed expert advice on the investment of its growing oil earnings and Switzerland's internationally oriented banks were in an excellent position to provide re-cycling services. After initial fears that undue diversification into Swiss franc holdings could seriously disturb the currency, the National Bank has in recent years aided the re-cycling process by making certain, Swiss-franc issues subscribable by monetary authorities of oil-producing countries.

Today, institutional investors in Arab nations are making full use of the services available to them through the Swiss banks. A recent Commerzbank study shows that over half the new foreign investments by Opec countries last year went into long-term commitments. Swiss bankers attribute this primarily to the shift, pioneered by Kuwait and Saudi Arabia, into portfolio investments on the part of monetary authorities.

These keep up a balanced investment policy, however, and continue to put money into worthwhile short and medium-term assets at the same time.

The Saudi Arabian Monetary Authority (SAMA) has made most use of the special Swiss franc facilities, having first grasped the opportunity when in 1976 the Swiss National Bank permitted Opec bodies to subscribe special medium-term Swiss franc paper issued by international development banks. Word has it in banking circles that the SAMA was the "foreign monetary authority," unnamed by the National Bank, which issued two series of SwFr 100m of debentures of one and two years' maturity this July with the right to float up to another SwFr 300m of such notes. This would certainly meet the Swiss criterion of helping along petrodollar re-cycling while keeping an eye on the fate of internationalised Swiss francs.

Revamping

Since last September it has been possible for all foreign borrowers' private placements denominated in Swiss francs to be acquired by non-Swiss banks, governments and monetary authorities against a commitment to retain these for the duration of the issue. With the intervening development of exchange and interest rates, these have not proved much of a draw. However, Arab and other investors could well be attracted by what observers say could be a pending revamping of the conditions for such purchases.

As one of the world's major gold trading centres, Switzerland is naturally interested in the Arab view of the metal for monetary purposes. In fact countries in the area with large official gold stocks—such as Algeria, Saudi Arabia and Kuwait—appear not to have bought any more for the best part of two years, from Switzerland or anywhere else. Only Libya has been building up monetary gold, its reserves having reached over 3½m ounces by April of this year.

The picture is different with regard to private clients in Arab countries. Given the current high level of short-term interest, they have been putting a great deal of money into three- to six-month paper. The attraction of short-term dollar investments has led to a massive increase of overall Opec money in Swiss banks' fiduciary accounts. This has been an important contributory factor in the rapid expansion of such business—by almost one-third in the case of Crédit Suisse—during the first half of 1981. Private Arab clients, traditionally drawn to money market opportunities, are hardly present on the long-term capital market, say Swiss portfolio managers.

The heightened glamour of the dollar, incidentally, by no means points to a loss of Arab custom for Switzerland's commercial and private banks. These have always acted as a conduit to a range of currencies and to the Euro-market—partly through their Luxembourg operations—rather than as a collecting basin for Swiss franc investments. The scope would otherwise have been much too limited for both client and banker.

As far as gold is concerned, trade in physical metal with countries such as the Gulf states is said to be quite good, though there is nothing like the run on "paper gold" the banks experienced at the start of last year. Too many Arab clients are twice shy of gold investments these days. Still, demand could well pick up further if and when the price starts a steady upswing; after a good deal of Middle Eastern jewellery was melted down for its gold during the last boom, the bazaars will soon be wanting more as investment prospects improve.

In the first half of this year Swiss franc borrowings of the Opec block more than doubled to a level of SwFr 234.6m. Various Arab countries belong to the banks' triple-A list in terms of credit-worthiness, the credits in question being primarily financial and export loans. However, the recent sharp increase very likely concerns non-Arab oil countries to a considerable extent: Saudi Arabia, Kuwait and Abu Dhabi, for example, are counted as largely "cash countries." Nevertheless, the availability of credit facilities is an important arrow in the quiver of the Swiss banks and substantial sums have been lent out over the years to Arab clients.

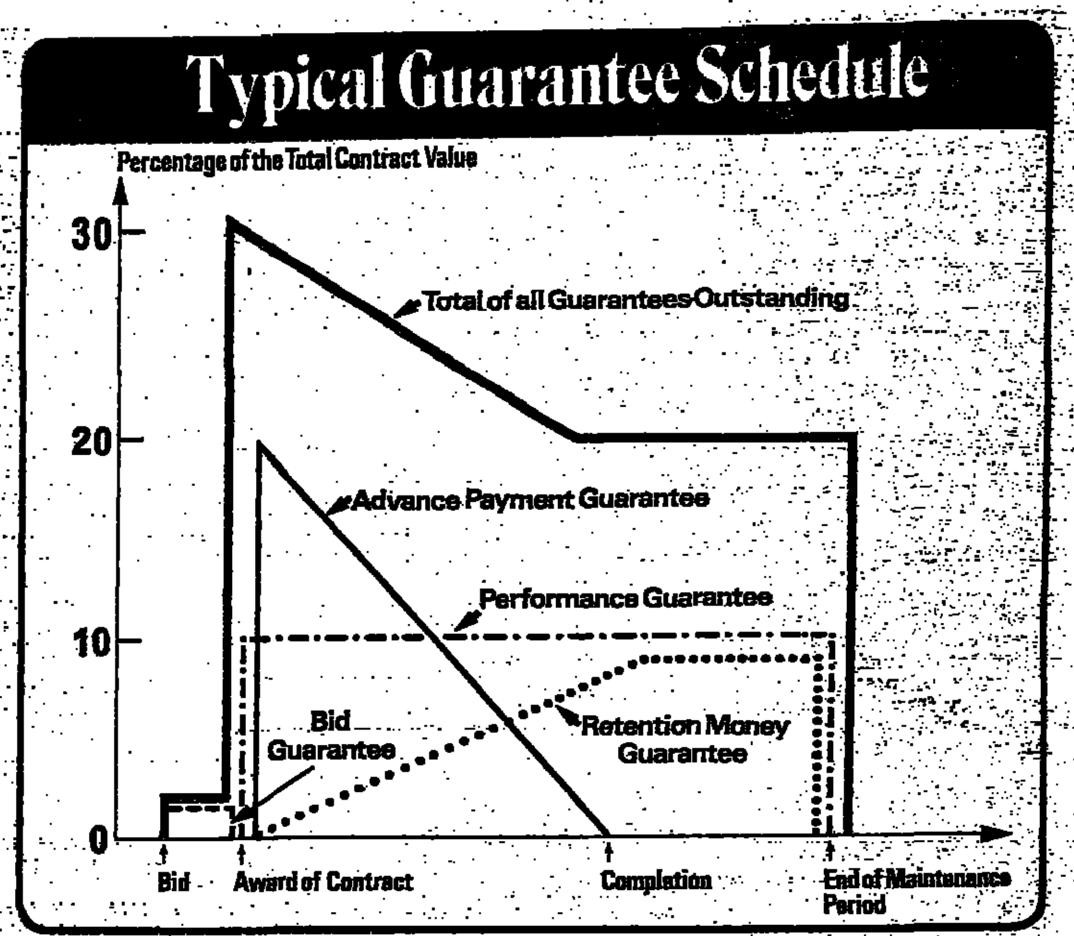
Loyalty

The freezing of the Iranian assets by the U.S. would in general appear to have made the Arab world more aware than ever of the benefits offered by Swiss banking services. The Swiss banks themselves enjoy a high degree of client loyalty from their Arab customers, whose growing sophistication as investors makes them excellent future recipients for increasingly sophisticated advisory and money management services.

The shock sustained by Arab countries in the Iranian asset-freezing has also, it is true, led to the inception—though apparently not in Switzerland itself—of so-called "faceless lending." This consists of transactions via an intermediary in return for a fee in which the identity of the investor is concealed. The Swiss banks are keeping out of this questionable business, which they claim is in any case not proving much of a success.

John Wicks

Shouldering the burden of construction guarantees



A FEW months ago the Libyan Government invoked a $35m letter of guarantee given by Turkiye Cumhurieyet Ziraat Bankasi on behalf of a Turkish Cypriot construction company which failed to complete its contractors. As a result Tripoli refused to accept such underwriting by Turkish banks on behalf of their country's concerns operating in what has been a very important market for it.

According to recent reports the issue has been resolved and the boycott of Turkish banks lifted following settlement of the obligation. Nevertheless, it was another reminder of the liabilities involved in construction contracts in the Arab world.

It still constitutes probably the most buoyant even if the boom period of growth is now four or five years gone. In terms of expenditure the region remains one of the most expansive in the world. By the same criterion it is still essentially a buyer's market. That means tough contract terms which can involve heavy sanctions.

Arab clients, with a few exceptions like the Arabian American Oil Company, are as insistent as ever on fixed price contracts. There has been no relaxation on the insistence that bid and performance bonds, together with guarantees in respect of advanced payments, should be unconditional and payable on demand with little or no defence allowed against arbitrary and carpicious calling. The refusal to contemplate independent or international arbitration remains dogged. At the same time contractors can suffer payment delays with no reimbursement for cost of the interest incurred.

Liability

For the banks which provide the guarantees or stand-by letters of credit on behalf of construction companies in respect of bonds and advance payments the business continues to be a source of some worry, even if ultimate liability rests on the contractor. Compared with a level of 1-1½ per cent two years ago rates have fallen to 0.25-0.5 per cent. For the larger projects of Arab states they can be as little as 0.125 per cent. At the other extreme the rate for more speculative private sector contracts can still be as high as 1-1.5 per cent. In Egypt where local banks must be involved there is an additional cost to the contractor of 1-1.5 per cent; in Saudi Arabia a relatively small charge is added for signature verification.

It was the sheer size of some of the contracts being awarded in the Arab world and Iran five or six years ago that first raised major concern. Bid bonds are in a range of 1½-2 per cent and advance payments—made on a generous scale to assist with mobilisation—generally 20 per cent. Performance bonds vary —5-10 per cent for Saudia Arabia, 10 per cent for Iraq and up to 20 per cent for Libya.

In the earlier stages of a contract liability can amount to 30 per cent of the total contract. The sums at stake can be very large. One fairly recent example was the $17bn University of Riyadh project awarded to Blount of the U.S. and Bouygues of France. A guarantee package of $430m was arranged for the main contract, with Amex and Chase Manhattan looking after the American portion and Credit Lyonnais the French portion. Another for $204m was lead-managed by the Bank of America for the Korean consortium made up of Hangyang, Lucky Development and Samick.

In themselves such figures are far too large for any single bank to contemplate shouldering responsibility, quite apart from considerations relating to credit lines, portfolio management and capital. Hence the development of syndicated guarantees over the past few years. More than 20 banks subscribed to each of the two relating to the University of Riyadh project.

Nevertheless, clients have shown signs over the past few years of being more flexible and accommodating. Mr Jim Muzzy of Bank of America, one of the leaders in this specialised area of construction finance, says: "To an extent the Arab world is less of a buyer's market—not because of the commercial aspects but because of the educational ones." The more discussions and negotiations take place the more employers and suppliers understand each other's problems. Clients are beginning to realise that it is worthwhile to pay attention to the wording of the instrument and to make sure that it makes sense to both sides of the transaction."

There is, Mr Muzzy says, increased recognition of the principle "get it right first time and you save headaches down the road on both sides." He notes a greater willingness to accept conditional guarantees. There have even been some instances of them in Saudi Arabia, one of the most rigid markets, where the liability has been qualified. But generally on-demand guarantees to cover bonds are still the rule.

Most bonds in the Arab world are covered by guarantees which amount to a secondary liability. Payment under them is dependent on the account party's failure and certain procedures being taken when the bond is called. Stand-by letters of credit, basically an American phenomenon, are a direct liability. For the banks they are simpler. But they are a contingent liability—as opposed to a funded loan—and, therefore, an extension of credit that is taken into account in lending limits. In Britain only half the value of guarantees are treated in this way. French, Swiss and banks of some other countries have an advantage over their British and American competitors as far as capital-adequacy regulations are concerned.

Provision of guarantees is a relatively specialised business demanding substantial resources and expertise. Relatively few banks can be said to be in the forefront. Among leaders in the field are Lloyd's Bank International, British Bank of the Middle East, Bank of America, Citibank, Continental of Chicago, Credit Lyonnais, Dresdner Bank, Deutsche Bank and Amsterdam-Rotterdam Bank.

Among the indigenous institutions of the region Arab Bank should be numbered. Recently it has been joined in a significant way by Banque Arabe d'Investissement International, Gulf International Bank and the Arab Banking Corporation. In itself the provision of guarantees may not be particularly profitable but its valued for the spin-off by way of the bigger financial packages and other business that it can generate.

From the contractor's point of view surety bonds would be more satisfactory. Arab clients are unfamiliar with the insurance business. They prefer in any case instruments which they can understand and can be easily liquidated. For them the complex procedure whereby an insurance company stands surety for a contractor, undertakes to cover actual losses suffered by the buyer and takes responsibility for completion of the project has no appeal whatsoever. For their part underwriters have looked with grave reservations on unconditional bonds.

The fact that no large guarantee has been invoked unreasonably has been reassuring to contractors and their bankers. By and large Arab clients have been equitable in their treatment of these blank cheque commitments.

The political risks in the Middle East were brought home by the revolution in Iran. Banks do not cover them. But the calling of guarantees by the regime there, nearly all of which did not get honoured as suppliers slapped injunctions on their banks, was a considerable aggravation involving administrative and legal expense. "For that reason we are more gun-shy than we would have been," says Mr Muzzy.

Richard Johns

Interest rates an obstacle to Gulf integration

REGIONAL integration has been a conspicuous theme of government policy statements in the Gulf over the last year. Sceptical observers remark that where the ideal does materialise, however, it is far more likely to be the result of private sector endeavours than of government policies.

This seems true of the financial sector than most others despite—or, perhaps, especially in view of—years of lip-service to such concepts as a shared Arab currency in the Gulf. Indeed it is widely held that misguided government policies have in recent years set back the progress of the Gulf's financial sector towards a greater integration which its various markets, left to themselves, might already have achieved.

Against this latter view it must be acknowledged that those markets operate in a capitalist environment of a rather special kind, where social and political pressures dictate regulatory frameworks far more intrusive than those of Western mixed economies.

Nostalgia

Above all they dictate interest rates of 10 per cent and less on all lending outside the interbank markets. But the Gulf's currencies are, with only a slight qualification, tied to the U.S. dollar. With a 10 per cent interest rate on the dollar already an object of nostalgia, this represents an acute strain on every banking system in the Gulf since domestic currency loans are readily exchangeable for dollars.

Struggling to overcome the consequent illiquidity for their domestic banks, Gulf governments have imposed informal controls on the flow of capital out of their states. The result has been a sharp curtailment of such private sector initiatives for closer regional integration as the Kuwaiti dinar and UAE dirham interbank markets in Bahrain, now starved of dinar and dirham capital inflows.

This is not necessarily to argue that the existing regulatory frameworks of the region are incompatible with closer integration, though some bankers take this view. It does, however, suggest that the usefulness of any designs for closer integration should be judged according to their effectiveness in helping to resolve this dilemma—reconciling, that is to say, the protection of inherently vulnerable currencies with a respect for that mobility of capital which is essential to all international markets.

Frail

By this criterion the Gulf Co-operation Council (GCC) looks frail indeed. The Gulf's Finance Ministers and central bankers have ready and constant access to each other in the normal course of events. Periodic council meetings to discuss overall strategy—the Gulf currency proposal, for example, was on the table at a recent GCC gathering though it was apparently not much discussed—may serve to underline a political point. This could be useful in such matters as avoiding a wasteful duplication of government investment. But they seem unlikely in the foreseeable future to advance the evolution of capital and money markets in the region.

Progress here will depend rather on practical steps taken by the authorities in response to market developments. For this reason the reopening of the Kuwaiti dinar bond market is of particular interest—and allows the central problem of integration to be identified most clearly with the challenge facing Mr Abdul-Latif Yousef Al-Hamad, the new Kuwaiti Finance Minister.

Kuwait's liquidity problem since 1979 has been typical of the troubles caused in the Gulf by high interest rates. Private sector borrowing to fund arbitrage operations against the dollar lifted bank lending at one stage to more than 130 per cent of customers' deposits. Interbank rates shot up to 35 per cent and more.

The authorities' response has also been fairly typical. Banking illiquidity has been relieved by various fiscal measures, in Kuwait's case notably by heavy government spending on land purchases. In their day-to-day operations the banks have been able to fall back, in Kuwait as in Bahrain and the UAE, on special borrowing facilities from the central bank. Funds in this category presently total about KD 450m. Among the conditions governing access to these "swap" facilities has been an informal ruling against lending dinars off-shore. Outstanding loans to Bahrain have dropped from KD 120m to KD 18m.

The result of these policies, after some trial and error, has been a relative success. Some arbitraging against the dollar continues but commercial bank loans have fallen to well under 110 per cent of customers' deposits, according to Mr Hikmat Nuwayhid, the newly-appointed executive manager of the Industrial Bank of Kuwait, and interbank dinar rates are down to an acceptable range of 8½-11 per cent.

In Kuwait's case, however, there has been an additional complication. Kuwait has always aspired to a leadership role in Gulf finance. This was increasingly identified through the 1970s with its maintenance of a bond market—the more so as Bahrain's banks unquestionably usurped the leadership in commercial banking.

An impressive string of sovereign and corporate borrowers issued dinar bonds worth KD 226m in 1978-79. This represented a significant drain on dinar liquidity since the bonds' proceeds were removed from circulation as the issuers effectively returned them to the central bank in return for dollars.

As dollar rates rose far above 10 per cent the market became something of a curiosity since it offered surrogate dollars at that level. Leaving aside this complication, however, and the question it raised about the motives for investing in the bonds, the liquidity factor drew the Government to declare a moratorium on further bond issues in September, 1979.

The moratorium has now been lifted. The Government feels sufficiently confident about its control of KD liquidity to allow further issues, subject to the sort of controls applied in West German markets by the Bundesbank's Capital Markets Sub-committee as to size and timing. In August two issues for Swedish borrowers raised KD 14m—a manageable enough amount when compared with the volume of interbank dealings of about KD 1bn.

Confronted

But the market is now confronted with the consequences of the government's other actions since 1979 to relieve domestic illiquidity. Investors even within the Gulf are conspicuously shy of a currency bereft of an international market. Western bond houses participating in dinar issues face an interbank dinar market which, deprived of Bahrain's dealers, offers far less assurance that short-term inventory positions can be easily funded.

Hence Mr Al-Hamad's position at the centre of the stage. He appears determined to revive the dinar bond market and the status of the dinar as an international currency. No doubt he will move cautiously. But to succeed he must surely take steps which run counter to the recent domestic policies of his own central bank. Whether Kuwait can benefit from their leading towards a happier union between its capital market and Bahrain's money market remains to be seen.

Duncan Campbell-Smith

COMMERCIAL BANKS' CONSOLIDATED BALANCE SHEET 1980

(Arab Dinar Units of Account m ; Arab Dinar = 3 SDRs)

	Kuwait 2nd Half	Kuwait 1st Half	Qatar 2nd Half	Qatar 1st Half	Oman 2nd Half	Oman 1st Half	Saudi Arabia 2nd Half	Saudi Arabia 1st Half	Bahrain 2nd Half	Bahrain 1st Half	U.A.E. 2nd Half	U.A.E. 1st Half
ASSETS												
Cash	16.8	15.7	5.7	8.7	8.3	5.0	85.0	100.0	2.2	3.1	18.1	20.8
Due from central bank	102.1	48.5	18.5	15.1	31.5	30.3	703.0	850.0	24.2	16.9	145.4	117.1
Due from local banks	—	—	29.9	20.9	22.8	19.8	237.0	116.0	18.8	15.3	—	—
Credit	2,573.6	2,168.1	265.1	234.1	216.1	191.9	2,789.0	2,310.0	317.9	293.7	2,059.0	1,884.8
Foreign assets	1,811.2	1,589.2	181.8	151.4	105.3	64.0	2,463.0	1,877.0	224.0	207.1	1,382.0	1,080.5
Other assets	938.5	756.6	22.8	35.5	56.8	30.5	272.0	274.0	43.5	37.9	93.8	106.0
Total assets=Total liabilities	5,437.3	4,585.0	523.8	463.7	438.8	341.5	6,527.0	6,549.0	630.6	574.0	3,699.1	3,211.2
LIABILITIES												
Demand deposits	403.1	471.2	113.4	156.7	119.4	47.0	2,722.0	2,472.0	93.7	90.9	371.2	336.9
Time and savings deposits	1,525.7	1,799.5	207.5	162.7	120.3	120.9	665.0	545.0	232.3	196.5	1,151.7	906.5
Government deposits	158.9	145.3	42.5	17.7	63.6	49.4	152.0	115.0	59.4	40.6	373.5	276.8
Due to local banks	—	—	54.0	13.7	30.5	25.4	337.0	160.0	18.8	15.3	—	—
Foreign liabilities	1,092.8	795.7	22.4	20.9	57.5	57.2	550.0	603.0	165.2	177.0	1,195.0	1,139.8
Capital reserves	324.7	281.1	55.4	40.9	25.8	21.2	325.0	282.0	29.8	26.7	393.3	358.5
Other liabilities	1,937.1	1,092.4	28.6	51.1	73.7	38.4	1,798.0	1,350.0	31.4	27.0	214.4	192.7

Source: Economic Bulletin of the Central Banks and Monetary Agencies of Arab Gulf States June 1981.

Yugoslav loan heralds renewed Kuwaiti dinar financing

THE KUWAITI dinar capital market for foreign borrowers was reactivated quietly but significantly this summer, after a lull of more than six months, with an innovative syndicated financing for Yugoslavia.

The decision to open up Kuwaiti dinar financing again is the brainchild of Mr Abdul Latif Yousef al Hamad, who earlier this year was appointed Minister of Finance. He has spoken openly of his ambitions to see the KD capital market develop more strongly than it has in the past.

His plans must be applauded, as they have been launched at a time when U.S. interest rates are still well into double figures, and creating grave difficulties for other, much more developed capital market systems than Kuwait's.

The financing which first gave the clue to Mr Hamad's scheme was the $250m syndicated loan this June for the National Bank of Yugoslavia, of which all but $100m was raised in the form of Kuwaiti dinars.

The managers of the loan were the three Ks—Kuwait Foreign Trading, Contracting and Investment Company, Kuwait International Investment Company and Kuwait Investment Company.

Significantly, the Yugoslav financing had another motive as far as Mr Hamad was concerned. The Kuwaiti chairman of the Paris-based Banque Arabe et Internationale d'Investissement until he resigned to take up his ministerial post last March, is committed to reinforcing Kuwaiti and Arab banking in the world arena.

It is understood that the three Ks will be the focus of this expansionist policy, already seen in the way that Gulf International Bank (GIB) and Arab Banking Corporation (ABC), consortia banks in which Kuwait has interests, have made their mark in international banking.

The Yugoslav loan was for a seven-year term, at an interest rate of 1½ per cent respectively over the cost of London interbank Eurodollar and dinar rates.

The credit came at a good time for financially hard-pressed Yugoslavia, which used the funds towards its borrowing target of some $2bn to meet its 1981 balance of payments requirements; Kuwaiti dinar interest rates were below those on U.S. dollars at the time of syndication—around 9 per cent versus 18 per cent on Eurodollars and thus representing a relatively low-cost financing.

Swallowed

The other element of the reopening of the Kuwaiti market came this August, when the first new dinar bond issue of 1981 was launched on behalf of the City of Stockholm. Swallowed up gratifyingly by local investors, it was quickly followed by two other bonds—for the Swedish Export Credit Corporation and Eurofima, the European rolling stock financing agency.

The Stockholm and Export Credit issues both carried coupons of 10 per cent; the Eurofima issue was brought with a slightly higher rate of 11 per cent.

Eurobond analysts say the coupon levels on all three issues were of a slightly cosmetic nature, in order not to disrupt the local Kuwaiti interest rate ceilings, currently pegged at around 10 per cent. None the less, a decent yield had to be paid in order to persuade investors to take up the bonds, when much higher yields were available elsewhere.

The problem was solved by a deep discount pricing method, in a pattern which looks to be established for the foreseeable future. The KD 7m Stockholm issue maintained the historic pattern for the KD market of a fixed coupon, payable annually and with the option for the holder to redeem the bonds on a specific date prior to final maturity.

But it departed from the norm in as far as it was the first KD bond of its type to be priced at a substantial discount. Priced at 94½, the bond yielded in excess of 11 per cent to holders who wish to exercise their accelerated redemption options.

The secondary market in existing KD bonds reacted well to the Stockholm issue, which permitted many holders of seasoned issues to switch into the new offering.

The KD 7m issue for the Swedish Export Credit was brought later in August, with a 10 per cent coupon and pricing at 95, to yield 11½ per cent.

Again local investor response was good, not least because buyers could finance acquisition of the bonds in the local money market at around 9 per cent thus virtually guaranteeing themselves a decent return.

By this autumn the pattern of the Kuwait capital system had become clear—the market is potentially open to foreign borrowers to tap both in the form of both syndicated loans and bonds.

This is an impressive first step, although local bankers caution that the pace of development will be necessarily slow and steady. For instance, Kuwait is not about to open its doors to foreign banks to hasten the pace of its capital market development, whose infrastructure will be clearly left in the hands of local institutions.

Kuwait's Minister of Finance, Mr Abdul Latif Yousef al Hamad

In an interview in July, Minister Al-Hamad stated that it was "out of the question" to allow foreign banks to open up in Kuwait. "We feel that Kuwait is adequately banked. If we need bank services, we have the resources and capability to establish national banks."

Mr Hamad, an outspoken critic of the multilateral lending agencies such as the International Monetary Fund and World Bank, must also feel he is making a useful point in bypassing such agencies, and letting borrowers directly tap Kuwaiti markets for long-term funds.

Disregarded

Despite providing 7-8 per cent of its GNP for development aid, Kuwait is being given very little say in the management of agencies such as the IMF, he charges. "Our points of view are disregarded or not taken into consideration in any due seriousness."

Mr Hamad says that at the same time Kuwait is being constantly called on to play a more important role in the provision of resources.

He adds: "What we would like to apply is the dictum 'no taxation without representation.' It is as simple as that, especially now that we have our own bilateral agencies that have established themselves in all areas of the world."

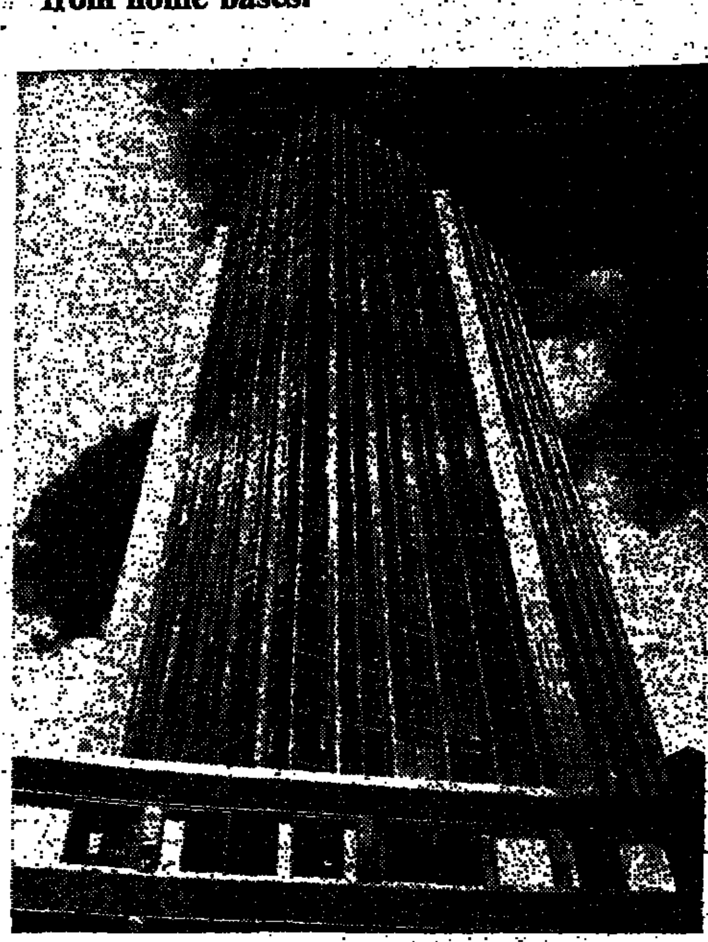
Mr Hamad asserts that Kuwait "can go direct to the Third World. The fact we do not do more with multilateral agencies will not be at the expense of the Third World countries."

John Evans

ARAB BANKING XVIII

The survey closes with a series of profiles of major Arab banks and other financial institutions—some operating from world centres such as London and Paris and other internationally from home bases.

SIB takes a leap forward



The Bishopsgate office of Saudi International Bank in the City of London

THE RAPID growth of the Saudi International Bank over the past year and a half is in marked contrast to the very modest aspirations professed by the institution when it began operations in London in 1975. At that time stress was laid on the training function and experience that such a "window on the world" could provide for the profession in the Kingdom.

In the past 18 months, however, it has emerged with the force that was inherent in shareholders strength. The market has now felt the impact of its considerable funding and placing power.

SIB's leap forward is described by Dr Andreas Prindl, the chief executive, as a "strategic effort" following the establishment of carefully constructed base. The bank has switched from "a training and watching brief to an intermediary one," he says. Size is not an end in itself. Rather is the objective to act as an investment and wholesale banking conduit from Saudi Arabia to the rest of the world "with the ability to answer people's problems."

The Saudi Arabian Monetary Agency (SAMA) is a 50 per cent shareholder in SIB and Mr Mohammed Abalkhail, the Finance Minister, its chairman. But the bank is in no way an instrument of SAMA, even if it is satisfying an Opec aspiration. Only a small proportion of its deposits come from the agency, perhaps 10-15 per cent. Nevertheless, SIB has gone some way towards fulfilling an oil producing country's aspiration to play a greater role in handling its surplus and is, indirectly, contributing to the recycling of it.

SIB's potential was more than fully apparent from the start. For its first venture abroad SAMA chose as its partners six banks, one each from the main international centres with which traditionally it had had the most dealings and placed most of its surplus revenue in the days before the explosive increase in the assets at its disposal.

Morgan Guaranty's crucial role in its genesis is reflected by its 20 per cent stake and management contract, renewed earlier this year for a second five-year period. The other shareholders, with a 5 per cent stake apiece, are the Bank of Tokyo, the Banque Nationale de Paris, Deutsche Bank, National Westminster Bank, and the Union Bank of Switzerland. The National Commercial Bank and the Riyad Bank both have 2½ per cent, giving Saudi Arabia a majority holding.

In 1980 SIB's balance sheet expanded by 56 per cent from £785.2m to £1.22bn. Gross profits before taxation and provision for loan loss were up 55 per cent at £9m. In the 12-month period ending in mid-1981 footings nearly doubled from £852m to £1.64bn, an increase reflecting the appreciation of the dollar. But in real terms growth would have been of the order of 60 per cent.

Most conspicuous has been SIB's activity in the syndicated loan business. In 1980 it was involved in the mangement of 24 major deals worth $4.95bn, taking the lead in four worth $363m. So far this year it has participated in transactions with an aggregate value of $4.12bn leading 12 worth $2.14bn. It has been in the forefront of diversification through its participation in SDR and "bulldog" issues.

There has been parallel expansion of other activities, not the least in the business of guaranteeing bonds and provision of other financial services related to development projects in the Kingdom. Not shown on the balance sheet are the growing volume of private placements made on behalf of state agencies, mainly SAMA. SIB remains the market maker for riyals in Europe—an extension in this respect of Bahrain's off-shore banking system. Its geographical grasp has been widened with the opening of a representative office in New York. It is planned to open another in Tokyo to cover operations in the Far East and Australia.

Richard Johns

National bank of Abu Dhabi foremost in the UAE

THE NATIONAL Bank of Abu Dhabi (NBAD) towers above all other local banks in the United Arab Emirates. Of the total assets of UAE banks of $13bn at the end of 1980, $5bn came from NBAD. In this year's league tables it rates as the sixth largest Arab bank.

NBAD has had a cherished upbringing since it was established in 1969; it is 10 per cent owned by the Government's investment arm, the Abu Dhabi Investment Agency (ADIA) and the rest by individuals. Half of its deposits come from government sources such as ADIA and the Abu Dhabi National Oil Company. They are all dollar-denominated. Unlike the Kuwaiti commercial banks, which are only now beginning to receive government oil revenues, NBAD has been singular among the local banks of oil-surplus states in that it acts as an investment channel for Abu Dhadi surplus funds.

Its balance sheet for 1980 showed consolidation rather than growth. Assets stood at Dh 17.5bn ($4.76bn) compared with Dh 17.9bn ($4.87bn) at the end of the year. Net profits increased by 45 per cent from 1979's Dh 47m ($12.8m) to Dh 68m ($18.5m), showing a return of 0.39 per cent. The actual drop in assets reflects the strengthening of the dollar against the dirham.

Capital

This year NBAD plans another capital increase. Its chief executive, Assaad Samaan Assaad, says: "We are planning to announce this within a few weeks and get it all signed and sealed by the end of 1981." The increase scheduled will more than triple the bank's current share capital of Dh 100m ($27m). The present capital would, says NBAD, appear inadequate were it not for the bank's $200m subordinated term loan from ADIA. Last time NBAD increased its capital was in 1975 when the total jumped tenfold from Dh 10m to Dh 100m.

NBAD offers a full range of banking activities. Its merchant banking division was set up in 1977 along with securities, new issues and trading departments. The bank seeks the reputation of being the most active name in the Middle East in floating rate notes and has recently been aggressive in this market. Recent activities in this area include lead managing $15m certificates of deposit with the Kyowa Bank Nederland in favour of the London Kyowa Bank, and lead managing with Sumitomo Finance International, $25m floating rate certificates for the London branch of Sumitomo Bank. This last was the sixth frcd issue arranged by NBAD in 1981.

NBAD established in 1981 a wholly owned subsidiary in Washington, the Abu Dhabi International Bank. It has branches in the UK, France, Tunisia, Egypt and the Sudan and is looking to Singapore and Tokyo. Negotiations with Japan have been held up, however, by Japan's demand for the setting up of a Japanese bank in the UAE, a move at present blocked by the UAE Central Bank.

Caroline Montagu

UBAF a world leader

UNION DE Banques Arabes et Françaises (UBAF), based in the bourgeois Paris suburb of Neuilly, lays claim to being "the foremost consortium bank in the world."

Founded in 1970 as the first in a series of affiliated banks in various countries, it is controlled by a group of 27 Arab shareholders representing almost every Arab country. These have a 60 per cent stake through a Curacao-based holding unit. The French participation is made up principally of the state-owned Crédit Lyonnais, with 30 per cent, and the Government export bank, Banque Française du Commerce Extérieur.

UBAF's $9bn-plus group assets put it in a class apart from other Paris-based consortium banks. It made its name in the international loan managing and underwriting field and has now by far the biggest share of that business among the French Arab banks, although, like its smaller counterparts, it has developed its range of specialised banking activities.

In 1980 the Paris bank's assets in French francs rose by 39 per cent and its profits before tax and provisions by 59 per cent to FFr 121m ($21m). This was despite the highly competitive conditions and narrow margins prevailing in its mainstream loan activity.

At the same time it showed big increases in international trade financing—32 per cent in terms of the number of transactions, 39 per cent in terms of gross income. Total deposits, in French currency terms, were 39 per cent up at close to FFr 22bn.

International loans managed or co-managed by the bank during the year amounted to more than $3.5bn, including more than $1bn in the Arab world. The bank is building up a strong position in Asia, with a new Singapore branch this year.

Besides being the biggest, UBAF sees itself as the model for other multinational Arab banks. While having its own foreign network, with a direct presence in Tokyo, Bahrain and Seoul, it forms part of a looser international group based on the principal not so much of doing in Rome what the Romans do but of going to bed with Romans when in Rome.

Since UBAF was set up in Paris, similarly conceived ventures have been established elsewhere with the same group of Arab participants but different foreign partners, local banks and in some cases other Arab banks.

The main components of this group are UBAF Bank in London, UBAE Arab Italian Bank, UBAE Arab German Bank, UBAN — Arab Japanese Finance and UBAF Arab American Bank, all with different shareholding structures. The first four, for instance, all have holdings in the New York bank. This complex structure has for the past eight years been kept together under the watchful eye of a co-ordination committee.

David White

ARAB BANKING XIX

Kuwait's high-powered trio of investment houses

KUWAIT'S THREE major investment houses—the three Ks—have shown beyond doubt that they have a major role to play in Kuwait's substantial financial sector. Their main operations are in international and local syndicates and bonds and in investment portfolio management. Kuwait being a capital surplus economy with a low absorption rate, the three Ks serve in particular as vehicles for overseas investment. They are also active in securities and property estate development.

The essential differences among the three is that Kuwait International Investment Company (KIIC) is maybe the most active in Kuwait itself, while Kuwait Foreign Trading, Contracting and Investment Company (KFTCIC) is specifically an instrument of overseas investment and Kuwait Investment Company (KIC) is also very active in direct overseas investment.

Established in 1961 as a joint venture—50 per cent government, 50 per cent private individuals—the Kuwait Investment Company (KIC) is Kuwait's oldest and second largest investment house. It was the first to issue a bond on the Kuwaiti dinar market back in 1976, largely thanks to its former general manager Abdul Latif Yousef al-Hamad who is now Kuwait's Minister of Finance. He has been a prime force in developing the KD bond market.

KIC plans to become more active in the new international bond issues. In 1980 it managed 34 issues totalling $2.5bn compared with twelve issues valued at about $700m in 1979. "The new issues department is one of our most active," says KIC general manager Hamad Al-Bahar. KIC's clients are solely institutions—Governments and corporations. Property constitutes the largest portion of KIC's assets—valued in total at KD 230m in 1980.

Resort

KIC owns a number of completed buildings and sites under construction both in Kuwait and abroad. Besides owning the Atlanta Center in America, it has entered into a joint venture for the development of Kiawah Island in South Carolina; 35 per cent of this resort area has already been developed.

KIC's decision to liquidate its unprofitable shipping interests forced the company last year to transfer KD 2.3m ($8.2m) from its general reserve in order to pay a reasonable dividend. KIC sold four of its ships from the Seaspeed Group—a ferry service between Great Britain and Ireland—last year, and the two remaining ones this year. The deficit on re-evaluating costs and writing off costs is estimated to be KD 14.6m ($51.8m). KIC attributes its failure in the shipping industry to general stagnation in that field.

Kuwait International Investment Company had record results in 1980 and increased its net income by 25 per cent. KIIC says its net profit in the first half of this year will almost equal the 1980 results. Ibrahim Al Yaquot, manager of KIIC's new issue department, believes this stems primarily from the sale of property at a substantial profit.

Founded in 1974, KIIC is the only one of the three Ks which is almost wholly owned by private Kuwaiti interests. The Government, with 7 per cent of the shares bought in the market, is only an indirect partner. But in the past seven years KIIC has earned a status comparable to both KIC and KFTCIC—both to a large extent government-owned. Yaquot proudly points out that "political loans" are now given by the Government to the three Ks for commercial management according to a rotation system. "When the Government saw that we do more than the two other Ks it began to consider us as one of the three Ks," Yaquot says.

Possessions

At the same time, Yaquot points out, KIIC is out of the government routine. It has its own responsibility. New bond issues make up approximately one-third of KIIC's activities. Pointing to the 42 issues KIIC managed and co-managed in 1980/81, Yaquot claims that "we are the leading house in new issues in the Middle East." Ninety per cent of the issues managed and co-managed by KIIC are on the international market.

In property KIIC sticks solely to Kuwait and owns no property whatsoever abroad. Among its Kuwaiti possessions are two multi-storey car park buildings in downtown Kuwait City. KIIC has an 11 per cent shareholding in the property company which owns the Al Salbia commercial complex and the adjacent Meriden Hotel. Forty per cent of KIIC's net income in 1980, KD 5.2m ($18.4m)—came from local property and stock market operations, the rest of the profit was derived equally from foreign exchange dealing, underwriting and Eurobond trading.

Most of KIIC's trading in foreign shares has been in Japan and the U.S. "But we are now studying European shares," says Yaquot. At the beginning of next year the company hopes to have established a new section specialised in European shares.

● Established in 1965 with an 80 per cent Government participation Kuwait Foreign Trading Contracting and Investment Company (KFTCIC) is the largest of the three Ks. Compared with a 20 per cent rise in 1979 KFTCIC increased its net income only slightly last year. "But," says managing director Abdullah Al Qabandi "this year we are much more active. We are increasing our staff by 20 per cent."

The increase in staff will be especially in the company's banking department, which hopes to expand internationally. Last year KFTCIC was lead manager of international syndications valued at more than $1.3bn. This year the company has already managed syndications worth more than $1.5bn.

KFTCIC has taken the lead in criticising the 10 per cent interest ceiling in Kuwait, which it views as a restriction of the free market. It has presently brought an issue to market which has an 11 per cent coupon. The central bank has not acknowledged this fact. "It simply remains silent" says Qabandi. Compared with the other two Ks KFTCIC is more active in direct investment and less in property, but the company does buy and develop property and often acts as construction manager for the Kuwait Government and other clients.

John Dorsey

Gifted Libyan heads Arab Banking Corpn.

IN TODAY'S unpredictable markets, says Arab Banking Corporation's Abdulla Ammar Saudi, successful bankers are those born with the ability to "smell" rather than the ability to plan. He was nominated last September at Georgetown University, Washington, as one of the five most innovative bankers of the year and earlier by New York's Institutional Investor as one of 15 men likely to become dominant faces in world banking in the 1980s.

The start-up of ABC, without technical assistance or consultancy contracts, is in keeping with Saudi's independent turn of mind and the belief that banking can only be learned at first hand.

The gifted Libyan joined his country's central bank as a 21-year-old counter clerk with nothing more prestigious than a commercial diploma. He spent eight months training with Midland Bank and within five years became the central bank's first investment manager. In 1969, at the age of 32, he was appointed general manager. Three years later, he created Libyan Arab Foreign Bank (LAFB) and by the time he left in March 1980 LAFB had 19 subsidiaries, affiliates and associated institutions in 15 countries and a 10 per cent stake in Fiat, of which Saudi is a director.

In this drive to increase the Arab presence in international markets, Saudi found a kindred spirit in Abdul Wahab Al-Tammar of Kuwait Foreign Trading, Contracting and Investment Company (KFTCIC) and the two have worked together for the past seven or eight years. Despite the success of such Arab-Western joint ventures as Aresbank (Banco Arabe-Espagnole) of which Saudi is chairman and Al Tammar is vice-chairman, and Arlabank (Arab Latin American Bank) in which ABC recently purchased a shareholding on its own behalf, they did not have the financial muscle to handle the scale of business available in the post-oil-shock Arab world. The solution lay in the creation of ABC, with a $1bn capital subscribed by three big oil-producers, Libya, Kuwait and Abu Dhabi: Al Tammar is chairman, Saudi is vice-chairman, president and chief executive.

Objectives

By mid-1982 ABC expects to have branches in London, New York and Singapore in addition to its head office in Bahrain, where it was incorporated in January 1980 with "special status" imposing no limitation on its area of operations. On April 1 this year the initial paid-in capital was boosted to $750m—no easy sum to deploy profitably at an early stage of a bank's development but judged necessary to demonstrate the seriousness of ABC's objectives.

Despite his reservations about planing, Saudi has set specific growth targets and these are being met, with assets (excluding contra accounts) of $3.45bn at June 30 looking set to top the $5bn mark by year-end. Deposits amounted to $2.54bn and loans and bonds to $876.6m. No interim profit figures have been released, beyond the $45m declared at the end of last year, on eight months' operations.

ABC's forte has been loan syndications, primarily sovereign risk as the easiest option while it builds up project research expertise. In the first half of this year the bank ranked ninth in the Caploan league table of most active lead-managers world-wide, with loans totalling $9.5bn against $4.5bn last year. It was well ahead of only three other Arab banks in the top 50.

The opening of its overseas branches will permit ABC to attack its second major objective—the aggressive pursuit of corporate accounts in the West, especially from companies which do business with its shareholder states. It is already active in the securities market and has taken part in a number of floating rate CD issues for Japanese banks as well as fixed and floating rate debt securities for well-known corporate names such as Shell Canada and Citicorp. Not only is ABC seeking mandates for new issues: in July the bank also entered the secondary market and had a successful first month with $1m of trade. As its human resources develop—it still has under 100 staff—it will offer discretionary investment portfolio management to its shareholders and outside institutions, as well as brokerage services.

With a capital structure geared to the absorption of at least $25bn of deposits, ABC aims to play an instrumental role, in the words of Al Tammar, "in the deployment of capital from where it is being saved to where it is needed most, to help fuel the productive process worldwide." But its business is conducted strictly according to commercial criteria.

Mary Frings

Amman-based Arab Bank maintains family style and traditions

THE AMMAN-BASED Arab Bank, which started its 51st year of operations this year as one of the three largest non-government commercial banks in the Arab world, is expanding steadily into new fields of investment banking activity while at the same time maintaining its old-fashioned family-style traditions. It started the year with a total balance sheet of nearly $7.5bn and has been growing steadily at an average rate of 15 per cent a year.

Unlike most of the banks operating in the Middle East today, which have grown up since the post-1973 oil boom, the Arab Bank earned its standing and reputation by consistently repaying its clients' trust—and deposits—through five turbulent decades of warfare and nationalisations throughout the Arab world. The bank was established in Jerusalem, Palestine, in 1930 by Abdul Hameed Shoman, a young Palestinian who had returned home after making some money in the garment trade in the U.S. It has continued to apply conservative no-frills business practices ever since. It consistently pays slightly lower interest on deposits than other banks and maintains a high liquidity ratio of 65 per cent.

Hallmark

Its hallmark has been its ability to repay clients' deposits in the midst or aftermath of warfare. Its clients collected money after the 1948 Arab... their money after the 1948 Arab-Israeli war in Palestine, during the previous internal troubles in 1936 and during the 1975/76 civil war in Lebanon. Says Khalid Abdul Hameed Shoman, son of the founder and current deputy chairman of the Arab Bank: "The confidence of our clients has been our biggest asset. The Shomans have always been known as reliable bankers. Perhaps we are old-fashioned but we are trusted as well."

This client trust in the Arab Bank has fuelled its international expansion to the point today where it has 78 branches in the Arab world, Europe and Africa, a wholly owned investment banking subsidiary in London and shareholdings in four of the biggest Arab-led consortia banks. Its priority today is to keep expanding in Europe, open more domestic branches throughout Jordan (which still accounts for one-quarter of its total balance sheet and profits) and continue moving into investment banking operations on a scale commensurate with its large lending capacity.

Arab Bank led syndicated loans worth $70bn in the first half of 1981, an amount exceeded only by Arab Banking Corporation. It recently arranged and managed two syndicated guarantee facilities worth SR 1.8bn for a contractor in Saudi Arabia, managed a DM 79m forward transaction to finance the purchase of truck-trailers by a joint Jordanian-Iraqi company, and put together a consortium of banks in Oman to open a letter of credit for the Oman Cement Company worth OR $7.5m to buy new equipment.

Though investment banking still accounts for only about 5 per cent of its business and offers thin spreads, it is a growing field for the Arab Bank because of demand by clients and the relative profitability that derives from the bank's low cost of funds. The Arab Bank made a net profit of $50m last year on gross earnings of $502m. The Shoman family holds 20 per cent of the bank's capital and continues to dominate both the decision-making and style of the bank, through Khaled Shoman, his older brother and bank chairman Abdul Majeed Shoman and the latter's son (and grandson of the founder) Abdel Hamid Shoman.

Rami Khouri

BAII shaping up to become a merchant bank

BANQUE ARABE et Internationale d'Investissement (BAII) is the Paris-based banking arm and principal offshoot of a Luxembourg holding company, CAII. Among the consortium banking organisations it is the only one owned on a 50-50 basis between Arab shareholders — mostly semi-government institutions and and medium-sized commercial banks—and Western banks.

Like the other consortium banks BAII made its reputation in the Euroloan business. But in the past two years, under a new chairman, M Yves Lamarche, it has taken a fundamentally different direction and come to look much more like a merchant bank.

"We should not be growing for the sake of growth," says M Lamarche, who previously looked after Middle East operations at Bank of America. The bank intends to maintain its loan portfolio but to be extremely selective and limit its exposure in this business. Meanwhile it has been diversifying into specialised banking services, including property and more particularly a fast-growing and extremely lucrative line in commodity export finance. It recently invested in a new commodity trading venture.

M Lamarche's ambition is to develop "a first class organisation," or, as he also puts it, to become "a Morgan Grenfell" or the Arab banking field.

This policy is evidently not solely aimed at bringing prestige. Net profits of the bank, which rose by a quarter last year to FFr 20.4m, have already passed that level in the first half of this year at FFr 24m ($4.1m). Total assets since the end of last year have risen by more than 20 per cent to FFr 13.2bn.

Compact

Unlike UBAF, (Union de Banques Arabes et Francais) M Lamarche wants to keep BAII as a compact organisation. It recently sold—at a profit—its shareholding in Dean Witter Reynolds of the U.S. because, according to M Lamarche, it had no say in the organisation. On the other hand it is maintaining an interest in Hill Samuel of the UK.

The bank's current ambitions as regards expansion are concencentrated on London and the Far East.

The chairmanship of the parent company, CAII was recently taken over by Mr Salim Al-Hoss, former Lebanese Prime Minister, following the appointment of the previous chairman, Mr Abdel-Latif Al-Hamad, to be Kuwait's Minister of Finance.

David White

ARAB BANK SYNDICATED CREDITS

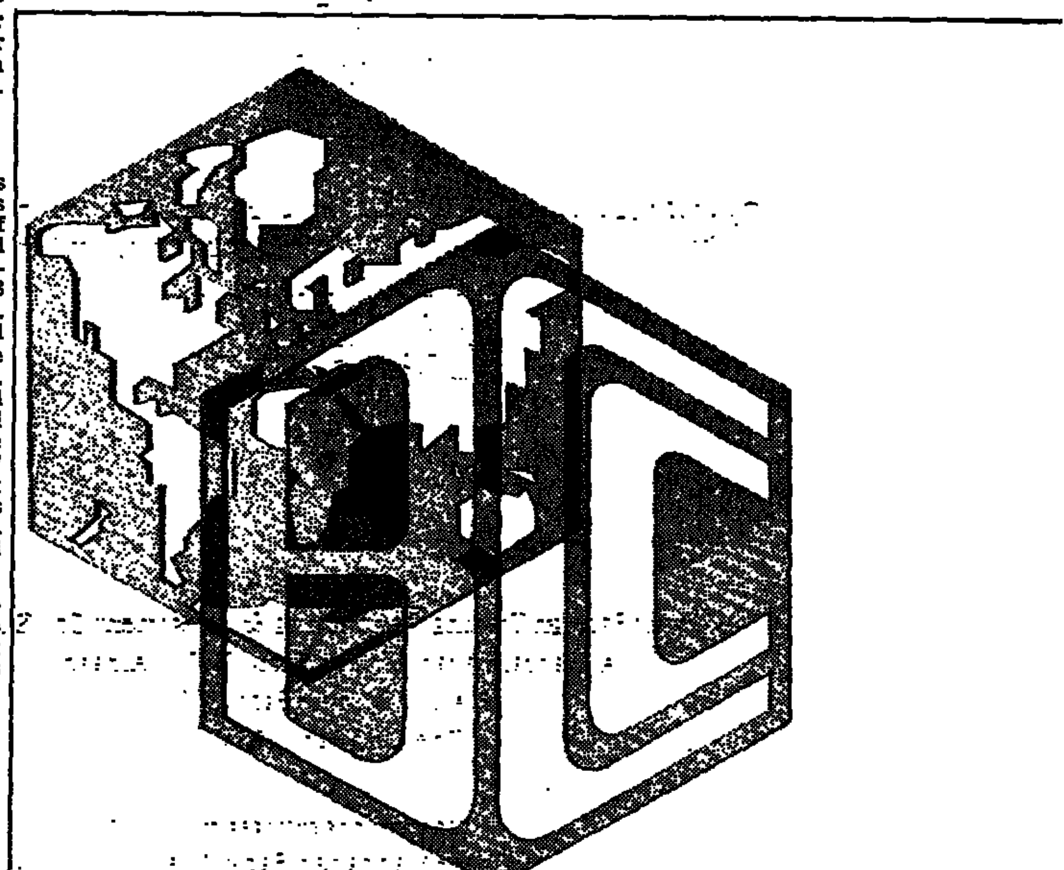
Lead Management		Management/Co-Management	
Saudi Arabia	1,232	Spain	919
Spain	1,078	Italy	810
Morocco	1,063	Brazil	671
Italy	975	Morocco	665
Algeria	720	Korea	617
Brazil	706	Saudi Arabia	550
Korea	534	Mexico	509
Abu Dhabi	500	Algeria	502
Bahrain	482	Nigeria	470
Qatar	460	Philippines	444
10 countries	7,750	10 countries	6,157
Other countries	7,168	Other countries	6,737
Total world	14,926	Total world	12,894

ARAB BANK LENDING
(% Share)

	1980	1981*
Non-oil LDCs	32.0	21.2
Opec†	38.4	40.0
OECD†	24.0	32.0
Comecon	5.6	6.8
Total world	100	100
Total US$m	3,847	4,001

* First 7 months.
† OPEC, other oil producing LDCs and Islamic countries.

Data Source for calculations: Euromoney Syndication Guide. Data covers lead management positions, assigning Arab banks equal proportions with other lead managers in each loan.



Exclusively Arab, exclusively offshore

Gulf International Bank (GIB) was created in 1975 as the first 100 per cent Arab bank to compete in the world market. To underline this message, the "G" of its logo encircles the globe.

But the mandate from its seven shareholders, the governments of Bahrain, Iraq, Kuwait, Oman, Qatar, Saudi Arabia and the UAE — always carefully listed in alphabetical order — was to provide wholesale commercial banking services outside the region. It was to be "offshore" not only in relation to its headquarters in Bahrain but to the whole Gulf.

The ban on opening branches in the shareholding States plainly rankles with the Saudi general manager, Dr Khalid Al Fayez: "If Chase and other foreign banks can do it, why not us?" But the restriction on exploiting the home market went by the board over two years ago, to the extent that in the first half of 1981 30 per cent of GIB's business was direct financing within the region.

Based on an initial paid-up capital of $70m (later increased in two stages to $180m and likely to go higher next year), GIB went into operation in December 1976 relying on well-tried Citibank systems and controls. The second year saw the opening of a representative office in London and the resignation of the bank's first chairman, Shaikh Ali Khalifa Al Sabah, on his appointment as Kuwait's Oil Minister. He was succeeded by the Governor of the Bahrain Monetary Agency, Abdulla Saif, a move which brought some raised eyebrows in the financial community. Mr Saif, however, said there was no conflict of interest with his role as a central banker, since GIB had no domestic branch in Bahrain.

Realistic

At an early stage GIB set out to carve itself a slice of the syndicated lending market and was soon appearing in the league tables as a "top Arab deal-maker." The suggestion that it sacrificed profitability for volume is rejected by Dr Al Fayez: "We never had to shave margins to get business. We simply made a realistic assessment of the market."

The London office was upgraded to a full branch in 1979 and a New York branch, the first pan-Arab bank in the U.S., was launched in October the following year. Representation in the Far East is the next priority.

Total assets of $2.9m at the end of 1980 (twice the 1979 figure) earned GIB a place in The Banker's Top 500, at number 387. Only six other banks in the table showed a higher rate of asset growth. Profitability was less spectacular but GIB's return on average assets of 0.57 per cent improved to 0.93 per cent (on an annual basis) in the first half of this year, helped by its direct lending activities and the fees on substantial letter of credit and guarantee business.

At least as important as profit, in the view of the general manager, is the build-up of both the range of banking services and the expertise of the staff, now numbering 290. Nearly 80 per cent of the 200 head office employees are Bahraini or other Arab nationals and GIB is spending $500,000 this year on training. Some 35 staff have been sent to the Citibank training centre in Athens and others to the Bahrain Bankers Training Centre which it wholeheartedly supports.

The range of commercial banking, money market and merchant banking services is increasing year by year as the necessary skills become available, although the marketable securities field has developed more slowly than was hoped and portfolio management, says Dr Al Fayez, is "still some years down the road."

Computerisation of the overseas branches is complete and Bahrain will be on line within months, without waiting for the move in October 1982 from unprepossessing rented premises into a new nine-storey head office.

The general manager of GIB admits to a conservatism which is not allowed to "impact negatively on the business of the bank." He holds two U.S. master's degrees and a doctorate in economics and international relations, has served with the Saudi Ministry of Finance and gained experience of a start-up operation with Riyadh-based Industrial Development Fund. GIB itself lays great stress on energy-intensive, low-manpower industrial development projects.

Incisive

Dr Al Fayez has an incisive mind and does not suffer fools gladly, but dry humour is never far below the surface. His much-quoted reply to an interviewer intent on pinning down a direct recycling role for GIB was simply: "I've never seen a petro-dollar. What does it look like?"

Mary Frings

Latin American connection opens new outlets

LATIN AMERICAN Finance Ministers short of money—and that means most of them—are constantly talking of tapping the petrodollars of the Arab world. Latin American Trade Ministers who are wrestling with the problems brought on by the oil price rises of the past decade are constantly dreaming of how to balance their trade with the Arab world. The Arab-Latin American Bank (Arlabank) based in Lima, the capital of Peru, and with an asset base of $1.5bn could be the answer to their prayers and dreams—or at least a partial answer.

Set up four years ago by 27 financial institutions and owned 60 per cent by Arab banks and 40 per cent by Latin American banks, Arlabank has emerged as an increasingly useful channel of funds from the Arab to the Latin American world. As such it has not just started to satisfy the Latin Americans; it has also begun to chart a course for those Arabs who want to find new places to invest their surpluses.

When the idea was first mooted there was something of a scramble on the part of the Latin Americans to join the consortium. As a result the founders were able to choose from a large range of Latin American institutions which range from the tiny Institut de Développement Agricole et Industriel of Haiti to the Banco do Brasil, Latin America's biggest bank and one of the world's largest. The Peruvian Government of the day also scrambled to give it those trading conditions which would ensure it set up in Lima.

The joint general managers are Sr Ignacio Copete Lizarralde and Mr Werner Makowski, who shuttle between Lima, the Bahrain branch and the slowly growing network of offices Arlabank is building up.

Last year they got something of a catch by attracting Mr Greville McGillivray, formerly the deputy chief of the overseas department of the Bank of England and one of the better known European bankers in Latin America, to take on the top spot in London. This year the top spot in the Bahrain office went to a banker equally well-known in Arab circles, Mr Adnan Bseiso of Palestinian origin, who has served at Gulf Air and the Saudi Arabian Monetary Agency.

Just before Mr Bseiso's move to Arlabank two additional Bahraini institutions, the National Bank of Bahrain and the Arab Banking Corporation, joined the original 27. At the time it was made clear that the 60-40 Arab-Latin American shareholding ratio would nevertheless not be disturbed. The Arab interests range from the Abu Dhabi Investment Authority to the Libyan Arab Foreign Bank.

Arlabank has emerged as an active force in the Eurocurrency market, particularly in syndicated loans. In the first half of 1981 Arlabank led seven syndicated loans worth $106m, putting it tenth among Arab institutions. It plans to grow further.

Hugh O'Shaughnessy

Task of managing oil wealth

CONTINUED FROM PAGE 1

Arab oil producers were reckoned to have risen by rather more than 12 per cent to nearly $7bn. Those of the Opec Fund for International Development, in which they predominate, and Arab aid agencies were up by 43 per cent to $1.9bn. In the first half of 1981 they rose by no less than 76 per cent over the corresponding period of last year.

More than half of the cash surplus was absorbed by longer term or less liquid assets. As the IMF surveyed the global recession in its recently published annual report it found little cheer but among the encouraging factors it noted was the "smooth fashion" in which the producers' surpluses had been recycled last year and in the first half of 1980—for the most part through private channels.

No comment was made by the IMF on one significant element in the equation. That was the greatly increased activity of Arab banks and institutions in the syndication of Eurocurrency loans.

As Western banks have become constrained by country exposure limits, the size of their capital in relation to loan commitments and the mounting debt burden of some borrowers, Arab institutions have dramatically increased their share ending in the developing world.

In the first half of 1981 85 were led by them were worth $4.1bn ahead of the $3.9bn recorded for the whole of last year and their share of all syndicated loans had risen to 8 per cent compared with 6.5 per cent for 1980.

In the forefront was the Arab Banking Corporation, the young heavyweight capitalised at $1bn and owned by the governments of Kuwait, Libya and the United Arab Emirates with syndications worth $906bn. Second was Arab Bank (of Jordan), one of the oldest established banks in the region, with $706m and third Gulf International Bank, in which the seven oil producers of the region have shares, with $599m. Also prominent was the London-registered Saudi International Bank in which the Saudi Monetary Agency has a 50 per cent stake.

Such institutions are not politically directed arms of the states owning them. They are important commercial participants in the recycling process by mobilising bank deposits generated increasingly within the region by oil revenues. At the same time Arab banks are also catering for a growing proportion of the needs of Arab borrowers. In doing so they are helping to rectifying the long-standing anomaly constituted by the fact that the deficit Arab countries have in the past had to resort to the Eurocurrency markets for their requirements.

The Arab world, it is easy to forget, embraces as many deficit as surplus countries. Despite the wealthy states among its members the Arab Monetary Fund calculates that their average debt service as a proportion of there total export earnings increased from 12 per cent in 1975 to 28 per cent in 1979.

Flows of private capital within the Arab world have been on the increase and undoubtedly the proportion of the oil states' surpluses invested directly within the region will continue to grow. The Arab states are moving with caution towards evolving a common capital market. Carefully nurtured over the years, Kuwait is the most developed and sophisticated capital market in the region but a protected one that is geared only to exporting its own funds.

More dynamically, Bahrain has become a vital international financial centre, even if its origin and rapid growth owed much to the inadequacies of Saudi Arabia's banking system. The expansion continues with the assets of the 63 offshore banking units up 30 per cent for the 12 months ending mid-1981. Amman and Tunis have gone far in creating vehicles for attracting capital for local use.

Very much more than an embryo of a fully fledged money market already exists in the Gulf. Its growth could be facilitated by the formation of the Gulf Co-operation Council grouping the fairly homogeneous conservative Arab oil-producing states in a scheme of political and economic co-ordination. "This is to my mind like Monnet's EEC—the beginning of a process," said Mr Abdul Latif al Hamad, the new Kuwaiti Finance Minister, recently. There has been renewed talk about a common Gulf currency.

On a wider front the objective is pan-Arab monetary union and economic integration. Attempts are being made to remove the barriers to investment within the region through the well-established Arab Investment Guarantees Corporation which has 21 member countries but is short of capital. Its operations are inevitably hampered by political differences among members. That factor too, as well as its modest capital, has limited the role played so far by the Arab Monetary Fund in easing the payments problems of members.

At least it can be said, however, that progress towards unity has been very much more convincing in the economic sphere than in the political one.

Doyen of Cairo's contingent

ARAB AFRICAN International Bank (AAIB) is the doyen of Cairo's foreign banking community, tracing its roots back a decade before President Sadat launched his "open door" policy. It was established in 1964 as the Arab African Bank by special statute (the Arab International Bank was similarly established in 1972 under a special agreement) to mobilise funds and investment for Arab and African countries. With the advent of the "open door" policy the bank's activities expanded considerably and in 1978 its name was changed to Arab African International Bank to reflect the global nature of its operations.

Since 1978, by a combination of aggressive banking and its Arab contracts, the bank has quintupled its consolidated assets to $3.5bn. In 1980 alone the bank increased its net profit by nearly 50 per cent to $21.5m. To keep up with this expansion capital was increased to $125m last May.

As well as subsidiaries in Bahrain (Al-Bahrain Arab African Bank) and Oman (Oman Arab African Bank), AAIB has a branch agency in New York. Through its 5.9 per cent stake in Union de Banques Arabes et Francaises (UBAF) it has a foot in Paris. The bank intends opening branches in Singapore and London. A recent decree cancelling AAIB's special status and bringing it under the supervision of the Egyptian central bank has removed the main obstacle to the grant to it by the Bank of England of a licence to operate in London, says chief executive Ebrahim Al-Ebrahim.

AAIB's principal areas of activity have gravitated towards the Arabian peninsula and its oil money—Kuwait's Ministry of Finance together with the Egyptian central bank are co-founders of AAIB, each with 42.5 per cent of the share capital. Egyptian business has declined to about 20 per cent of world-wide activities.

Perhaps the roughest patch the bank has had to tread was when the Arab world broke with Egypt after the signing of the peace treaty with Israel in 1979. AAIB lost valuable business with the winding-up of the Arab Organisation for Industrialisation (AOI), the multi-billion Arab arms organisation Egypt was setting up with Saudi Arabia, the UAE and Qatar. More sensitive still was the aftermath of the closure, when the Egyptian Government froze the accounts of some pan-Arab organisations.

But that unsettled period was successfully weathered and AAIB is more strongly entrenched in Cairo than ever, participating in local syndications and trade financing. The bank's world-wide operations continue to be directed from its head office in Cairo.

Although trade financing provides the bread and butter, AAIB's syndicated loan activities have expanded greatly. AAIB has managed a number of country syndications, including those for Brazil, Venezuela, Spain, Morocco, Italy and Bahrain. "The market is expanding from short to medium-term financing, not only in Egypt but from the Middle East," says Al-Ebrahim. "That is where the group will continue to look for expansion."

Alan Mackie

CHAMBER ORCHESTRA OF EUROPE

Tuning up to world class

By Ian Davidson

JUST ABOUT a year ago, a group of young musicians decided to form themselves into a new chamber orchestra. Two things made this an unusual enterprise. In the first place, none of them was a full-time professional performer, all of them were very young indeed, and (just to complicate matters) they came from six different European countries. In the second place, some of those who have heard them play believe they could leap straight into the front rank of international chamber orchestras, in the same league as the English Chamber Orchestra or the Academy of St Martin's-in-the-Fields or, in America, Los Angeles and St Paul's Minnesota. They call themselves the Chamber Orchestra of Europe.

The idea for the orchestra had its origin in the 130-strong European Community Youth Orchestra, an annual summer festival assembled on the basis of national competitions and auditions in each of the 10 member states. But the idea would probably have got nowhere if it had not been for three men: Claudio Abbado, James Judd, and Peter Readman.

Sponsorship market opportunities

Claudio Abbado, besides being an international celebrity conductor, is also music director of the European Community Youth Orchestra; he is now artistic adviser to the Chamber Orchestra of Europe. James Judd is a young conductor who is Abbado's assistant at the ECYO and chief talent spotter at the national auditions; he is now music director of the Chamber Orchestra of Europe. Peter Readman is a young businessman-consultant in the City who has made it his task to turn artistic potential into commercial reality.

It is a daunting undertaking, because virtually no full-time professional orchestra in Europe can survive without government subsidies or commercial sponsorship, or both, and the middle of a recession hardly looks the best time to be asking for either type of subvention. But Readman is one of those cheerful people who exude energy and enthusiasm, and he is firmly convinced that the sponsorship market has not previously been properly tapped.

The undertaking is doubly daunting because speed is of the essence. These 42 young musicians, whose ages range from 18 to 24 and average about 22, are right at the start of their careers and need to make a living.

Some are still studying part-time, but a number could move from free-lancing to permanent jobs with major orchestras. Nigel Black, for example (who was born in 1960), was offered a job in 1979 as principal horn at La Scala, Milan, and now free-lances regularly with the LSO and RPO; Pepe di Meglio, a year younger, plays first trumpet in the Symphony Orchestra of Italy's RAI radio and TV network.

The problem is circular. If they want to secure commercial sponsorship, they need to be able to show not merely that they are very good but that they can stay together on a permanent basis. If they want to show that they are, if not the best, then as good as the best, then they need to work with the most famous conductors and soloists. But the most famous conductors and soloists are booked up months or even years ahead, and some of them may have long-term links with other chamber orchestras like the ECO or the Academy. So they need sponsorship to keep them afloat, and they need to attract the attention of concert promoters, record companies, festival organisers and top musicians.

It sounds a tall order, but they are not doing too badly so far. In May, Peter Readman staged a private demonstration concert at the Merchant Taylors hall in the City of London, at which some 300 invited guests heard Stephen Bishop-Kovacevic play Mozart's Piano Concerto in C minor K 491, followed by Mozart's Symphony 29 in A.

As for the performance, it was not just that no one could have guessed that this orchestra simply did not exist a few months before. Rather, it would have been difficult for anyone listening with his eyes

Leonard Burt

James Judd, musical director of the COE

shut to assert positively that this was not the English Chamber Orchestra — and I have a cassette recording of the concert to prove it. I am not surprised to learn that one recording producer (in a moment of euphoria, no doubt) put their woodwind section above that of the Berlin Philharmonic. Nor am I surprised that Martin Campbell-White, of the Harold Holt concert agency, thinks so highly of their potential that he has joined the orchestra's management board.

Considering that this is a chamber orchestra from the member states of the European Community, the nationality breakdown looks suspiciously unfair, as if the UK were getting its own back for its inequitable contribution to the EEC budget. The British contingent is by far the largest, followed by the Dutch and the Germans, with rather small contributions from Italy, France and Denmark, and none from Belgium, Luxembourg, Ireland or Greece.

Since the orchestra is self-selected, not on the results of national competitions and auditions, but on the basis of peer-group acceptability, there can be no political bias. But since the same kind of national maldistribution appears in the European Community Youth Orchestra, there may be a common explanation.

Part of the explanation, according to James Judd, who has had a lot of experience in travelling round the national auditions, is that the breadth and volume of the training of musical talent is much greater in Britain than in most other European countries, especially at the level required for orchestral players. Some of the continental countries have a thin layer of absolutely outstanding performers, trained and no doubt destined to become soloists one day, but below that thin layer rather little.

No doubt this has something to do with the differences in the length of musical training, and also something to do with employment prospects when training is over. A Briton gets three years at a music school, and only a fourth if he is lucky enough to get an additional grant. But on the Continent, musical training tends to last for four or five years. This must be daunting, in the face of the uncertainties of a musical career.

This may explain why Britain does not produce large quantities of internationally-famous soloists—and also why London has five major symphony orchestras. Some people say this is too many, in terms of the highest standards of performance, but they certainly provide employment for British musicians.

However, the plethora of London orchestras means that they all have to play more and rehearse less than their Continental counterparts. One result of this is that the British members of the ECYO (and presumably also those of the COE) tend to be much better at sight-reading than their European colleagues, because they have to be.

But in the case of the ECYO, and perhaps it has rubbed off on the Chamber Orchestra of Europe, there has been one political factor at work. In France, quite apart from the vitriol of national musical politics, which sets the Paris Conservatoire at war with the rest of the country, there is deep hostility to any European Community initiative which comes from Britain, whether it be the ECYO or the Chamber Orchestra of Europe.

Partly as a result of the May concert, the orchestra has aroused quite a bit of interest in the musical world. It has been invited to play at next year's City of London Festival and Abbado will take it on a mini-tour in October 1982, starting in London and ending in Italy. Earlier this month it played in a revival of Rossini's Lady of the Lake, in Italy, under the baton of Maurizio Pollini, the pianist.

Full-time operation hope for 1982-83

The target is to get three or four months' work in the coming 1981-82 season with the hope of full-time work in the following year. But the immediate need is to raise seed money on a charitable or sponsorship basis. The May concert brought in a certain amount of cash, mainly from charities, as well as some half-promises. To persuade the doubters that the orchestra really does exist—and to bring in a lot more money in commercial sponsorship—a second demonstration concert is being held tonight in London, at which the programme will be Prokofiev's Classical symphony, Mozart's Jupiter, and Beethoven's second piano concerto, with John Lill at the piano. Like Abbado and Bishop-Kovacevic in May, John Lill is giving his services free.

I cannot reveal where the concert is being held, partly because it is private, partly because the hall does not open to the public until next March. But it appears that nearly 2,000 people have either accepted or secured invitations and that should pretty well fill the place. It should be quite a send-off for the 42 young players who make up Europe's first and only international chamber orchestra.

Lombard

The conscience of a liberal

By Samuel Brittan

THERE HAS been a running battle in the past few weeks between Anthony Sampson and Peregrine Worsthorne, leading columnists on the left-of-centre Observer and conservative Sunday Telegraph, respectively.

In an article entitled "Reactionaries also have consciences" Worsthorne stressed his deep pessimism, praised the working class "love of a lord," popular snobbery and nationalism as the best defence against the rampages of half-baked reformers of the Benn type. Sampson in his reply accused Worsthorne of "providing no hope for the future."

It would be sad if readers supposed that the Sampson-Worsthorne dialogue encompassed all possible outlooks. For there is a third view from which the two columnists appear very similar. They are both interventionists at heart, neither sympathising with the maxim "who governs best, who governs least." One is interventionist on behalf of a traditional ruling order and the other on behalf of the aspirations of those below. Both give primacy to foreign policy, one on behalf of a Brandt-type new economic order, the other on behalf of traditionally-defined British interests.

The third view is that which puts liberty above both obedience and equality and is profoundly suspicious of anyone who tells either an individual or a country what to do for his own good. A person of this faith has difficulty in finding a label because of the misuse to which his original and correct title "liberal" has been put.

A sign of the difficulties of modern liberalism is the selective way in which some people will condemn Latin American right-wing dictatorships, some will condemn Communist tyrannies and a few even condemn the Ayatollah's Iran, but hardly any the whole lot of these noxious régimes. A liberal has no more illusion about human nastiness than Worsthorne, but he will not wallow in it and, unlike Sampson, will realise that the state is in essence an organ of coercion, and is a two-edged sword.

A liberal is suspicious both of Worsthorne's nationalism and Sampson's internationalism. He regards a government or state as a convenient organisation, devoid of mystic significance, for carrying out those activities which cannot be undertaken by voluntary effort or through the market. He himself will be pragmatic about whether the best governmental unit is the UN, the EEC, the Summit Group or the local parish council.

He will understand why Worsthorne regards Mrs Thatcher as an ersatz Tory, but will prefer the ersatz to the Tory half and will remember that Worsthorne's main criticism of socialism is its lack of belief in a ruling class.

If a liberal dislikes high taxes, it is because they distort choice, not because they discourage effort relative to leisure. He will refuse to praise—or condemn—the work ethic; and he will take it as a compliment if people accuse him of believing in the "permissive society."

He will be neither cynical nor devoid of hope. But he may seem so to the more superficial interventionists, because his expectations of progress come from individuals rather than governments.

A modern liberal is intensely aware of the tragic division between political and social liberalism, which has moved left of centre, and economic liberalism which is found mostly on the right. He will therefore have to pick and choose between parties on different issues and on some matters, relating for instance to peace and war, he may have to move well to the left of the Social Democrats.

Of all the many groups contending for favour, he will be most suspicious of the condescension and paternalism of the "Tory wets" and will advise any Social Democrat friends not to make common cause. For despite the electicism he knows the uselessness of the left-right spectrum and the futility of simply trying to bisect the difference between Margaret Thatcher and Tony Benn and impailing himself on the middle point.

Letters to the Editor

After the bloodbath—analyse the gurus

From Mr N. Young.

Sir,—Following the stock market bloodbath of the past two weeks there can be few investors who now seriously doubt that for months past shares have been grossly over-valued. Is it not time that more investors realised that there are very few experts indeed in the field of stock market forecasting?

The unrealistically high levels of shares recently can be directly attributed to the constant flow of buying advice fed daily to the public by investment advisers, nothwithstanding the fundamentally weak case for buying equities that has prevailed—perhaps for the past two years.

Share tipsters come in all forms, be they journalists, publishers of privately circulated subscription services, stock-brokers, accountants, et al. Unfortunately, in recent years something of a cult has grown up around the names of some of these advisers.

I say "unfortunately" because many of them have records in forecasting as equivocal and unreliable as a beginner with a pin. Nonetheless, many investors tend to hang on their every word, ignoring for the most part that share tipsters—of whatever kind—have a vested interest in rising markets. I know, because I was one myself.

Any of your readers who doubt my observations on the quality of stock market advice given by investment advisers (and journalists) generally, should keep a note of the pronouncements of their favourite "guru" over a year. They may be surprised at the self-contradictions, and even more surprised at the far-fetched claims to have got it right! Only too often an ambiguous reference made months earlier to a possible trend will subsequently be presented as having been a firm forecast made good.

In this cult of the stock market adviser perhaps it should be recognised, also, that big reputations are by no means anonymous with forecasting skills, but rather with charisma. While always interesting some of the best known names, whetherer financial journalists, investment analysts, Americans, or indeed ladies in a man's world, only too often make the biggest forecasting errors.

My general advice to the unskilled investor would be to start accumulating shares when the index has fallen 25 per cent from a previous main peak, and to start selling when he shows a 50 per cent gain or in the three months period ahead of a general election (whichever is the sooner)—and to listen to stock market gurus for entertainment only.

Neville Young,
Timberlees, Stevens Lane,
Claygate, Surrey.

Statistical studies of company shareholders

From the Director,
Central Statistical Office.

Sir,—I welcome very much the new source of information on company shareholdings assembled by the Stock Exchange economics department from published company reports and from special analyses supplied by companies (reported by Christine Moir September 24). Besides providing valuable information in its own right to those involved in financial markets, it could have a part to play in compiling national and sector balance sheets—now becoming an important part of the CSO's national accounting output, and portraying the distribution and composition of wealth across the economy.

The best source of information on the sector distribution of shareholdings is a share register survey of the type conducted by the Department of Industry for end-1975. They need to be conducted every few years to provide firm benchmarks for the rough estimation methods one is obliged to use in the interim. Register surveys preferably should incorporate sub-surveys of nominee holdings to discover the underlying pattern of beneficial holdings. I am very pleased to hear that the Stock Exchange is actively considering conducting a survey on these lines in respect of end 1981.

To enable readers of both your article and the Stock Exchange publication to obtain maximum value from the study, one or two points in your article need correction. The Stock Exchange did not, as Christine Moir claims, attack the quality of official figures of share transactions, but as one would expect in an analysis of this kind, merely repeated our own assessment of them. If they were attacking anyone it was those who mis-use the transactions figures for updating the end-1975 share register survey. Your reference to the methods used for the end-1978 figures in the Wilson report was misleading. They were mainly derived from available holdings data, not accumulated transactions.

Comparable proportions for end-1979 and end-1980 have yet to be calculated. When they are available we will—together with Stock Exchange officials—assess them in the light of their new information for end-1980, bearing in mind that their methods have the disadvantages clearly set out in the Stock Exchange report. Hopefully, we will reach an agreed view on post-1975 trends, but subject to correction when the results of the next full share register survey are available.

(Sir) John Boreham.
Central Statistical Office,
Great George Street, SW1.

Surprising differential in coffee prices

From Dr R. Carter

Sir,—Re coffee prices I note the following comparison, made recently, for 8 oz of ground coffee.

UK supermarket: around 100p (top price 135p).

French supermarket: around 70p.

I await, with eager anticipation, some explanatory comment from Lyons/Kenco/Melitta/Waitrose/etc. to assure us, doubtless, that this surprising differential is attributable to the rise/fall/thickness/colour/etc. of the pound sterling and, probably, in the short/medium/long-term interest of the consumer . . .

(Dr) Robin Carter.
100 Bowes Hill,
Rowlands Castle, Hants.

Economists should take their own medicine

From Mr T. Nichols.

Sir, — Having suffered for 20 years from the excruciating decline of the British economy, it is quite obvious to me that no economic policy works, and it is high time that the whole subject was scrapped.

Might I suggest that economists take some of their own medicine by reallocating themselves to working as coal miners to solve the energy crisis or working on farms to help feed the world's starving millions?

Tim Nichols.
24, Chalcot Close, Grange Road,
Sutton, Surrey.

Room for improvement all round

From Mr A. Herd

Sir,—While I have no doubt whatsoever that Mr F. Price (September 19) would genuinely like to see an early improvement in the output and profitability of the UK corporate sector, I am just a little concerned about his somewhat superficial approach to a very real national problem.

Mr Price's criticisms could, in fact, have been more appropriately directed at the Institute of Directors, whose members actually direct the activities of our publicly quoted companies and control many of the country's private limited companies. Coincidentally, Saturday's Financial Times also included a detailed account of yet another boardroom wrangle!

Returning to the question of management, as opposed to ownership I believe there are signs which support the British Institute of Management director general's claim that "the standard of education of British managers is improving" and, in this connection, I should like to emphasise that I am talking about the appropriate mix of academic, supervisory and relevant functional skills.

There is no denying, of course, that management techniques can and must be further developed but, by the same token, there is room for improvement in virtually every other organisation and institution in the United Kingdom.

Andrew Herd.
2A, Strathmore Street,
Broughty Ferry,
Dundee.

Buzzard-buster needed for Buzby

From Mr K. Heath

Sir,—The bird to which Mr Phillipson objects (September 19) would not repay stuffing; judging by our telephone bills, it is some kind of vulture.

Some years ago, a mining company in the western U.S. suffered from short-circuits in its power line caused by buzzards scrambling around on the poles, carrying the live ... They installed ... "buster" on the top of ... of the poles, a small ... coupled to a ... pronged that when the ... form sank under the weight of an alighting bird, a sharp three-pronged fork swung up and persuaded the visitor that its presence was not desired. We need a Buzzardby-buster.

K. C. G. Heath.
Beersden, Onslow Road,
Sunningdale, Berks.

UK COMPANY NEWS

● IAN RODGER DISCUSSES THIS WEEK'S HABITAT FLOTATION

Unusual problems face potential investors

THE LONG-AWAITED market flotation of **Habitat**, the fast-growing home furnishings retail group, is finally taking place this week.

But investors who normally might not hesitate to apply for shares in this offer for sale, have two unusual factors to consider.

First, the offer is being made by way of an invitation to tender, a seldom used method that obliges the would-be investor to guess how much he will have to offer in order to receive an allocation of shares.

Second, stock market prices generally have dropped sharply in the past week. As a result, the new Habitat shares look rather expensive, especially when compared with other stores shares. Thus, it is possible, although unlikely, that the offer will not be a success and investors might be able to buy the shares later in the market at prices lower than the 110p minimum tender price.

Habitat has chosen the tender method for its offer to avoid the possibility of setting the offer price too low. It is not uncommon, following an ordinary offer for sale, to see new shares rise quickly to a significant premium from the offer price.

British Aerospace shares, for example, were offered last February at 150p but jumped to 179p in the first week of dealings. The nearly 20 per cent capital gain in the move from 150p to 179p went entirely to investors in the new shares, many of them short-term speculators who counted on just such a move, rather than to the company.

By using the tender method, Habitat and its advisers are trying to recoup most of any difference that may exist between their assessment of the shares' worth and the market's.

The procedure is that once all the tenders are in on Thursday, the company will work out a so-called striking price. This is a price at which all the shares in the offer will be sold so it has to be at a level at and above which there are sufficient tenders to raise the £12m being sought. Tenders below the striking price receive no allocation.

One danger in this method is that the company might set the striking price as high as possible to maximise its return, resulting ing a lack of demand to support the share price when dealings begin on the Stock Exchange. However, Morgan Grenfell and Bank Mees and Hope, the underwriters, say the striking price will be set bearing in mind "the need to establish a market in the shares."

Habitat's size and record are set out in the prospectus which is published today. Underlying assets are worth 50.1p per share. Profits have grown at a compound rate of 30 per cent in the past five years and continued to grow last year despite the recession.

Excluding profits on property sales, profits were up 14 per cent in the year to June 1981, after being down 18 per cent at the interim stage. Habitat has given no explanation for the more than doubled second half trading profits except to say that they were very much better than expected.

Much of the company's growth has come from physical expansion. Its net selling space has doubled in the past five years to 709,000 sq ft in 52 stores in the UK, France, Belgium and the U.S. But sales and profits in existing space are also rising.

Last year, total turnover rose 15.4 per cent but turnover in existing stores rose 10 per cent. The group's internal inflation rate was 7½ per cent.

Habitat still has considerable potential for expansion. Despite its success, it still has few direct competitors in the UK and has numerous opportunities to add to its 33 stores, particularly at edge-of-town sites where home furnishings retailing is most successful. In the current year, one new store will be opened at Sheffield.

Outside the UK, Habitat, like some other British retailers, has had its problems. Its first major foreign venture was in France and Belgium. Begun in 1973, it was not profitable until 1977 but has since become a healthy and growing contributor to profit, operating 15 stores and accounting last year for nearly a quarter of group trading profit. Two more stores in France are to be opened this year.

The U.S. seemed a natural ground for expansion for Habitat in part because Mr Conran's interior design books enjoyed a large sale there long before the first store was set up in 1977. Indeed, the group's advertising slogan in the U.S. tries to capitalise on this—"Conran's, the home furnishing store that wrote the books." However, trading losses rose steadily to £543,000 in 1979-80 before easing slightly last year to £467,000.

Aware that other British retailers have had long, painful experiences in North America, Habitat officials say they would not have floated shares publicly unless they were confident that the U.S. operation was coming right. With six stores open, and the Manhattan store among the group's most profitable, there is now sufficient activity to cover overheads and start generating reasonable earnings.

However, this point is being reached at a time when U.S. consumer spending is likely to be severely constrained by high interest rates, and so the company has shied away from forecasting exactly when profits will start to flow.

Another potential source of major growth is Japan where Habitat is carrying out a feasibility study with the Seibu retailing group with a view to setting up a joint venture. A final decision is to be made early next year.

Habitat is not making an overall profit forecast for the current year, claiming that with the vital Christmas trading period yet to come, it is too early. However, it says sales in the first 12 weeks of the year are 20 per cent ahead, indicating a higher growth rate than during last year as a whole.

Assuming that net margins are maintained, trading profits could thus work out at about £5m this year compared with £3.9m last year before the gain on a property disposal. This figure could rise by another £1m if most of the £9.5m net proceeds of the offer are used to pay off Habitat's expensive dollar debt, which stands at about £7m.

On the basis of average weighted capital, the minimum tender price works out to just under 16 times fully taxed prospective earnings. In itself, that is not an outrageous price to pay for a company with a record and prospects as bright as those of Habitat. But in last week's market plunge, the prices of other comparable shares have fallen sharply.

Marks and Spencer is the share that Habitat and its advisers have followed most carefully while trying to set the minimum tender price, although they believe Habitat has better growth prospects than Marks. The Marks share fell from 124p on Wednesday morning, when the Habitat minimum was being set, to 114p at Friday's close.

At 124p, the prospective fully taxed p/e on Marks for the year to next March was just over 17, but by the end of the week it was, like Habitat's minimum, just under 16. On a similar basis, Mothercare shares were on a prospective p/e of about 13½ at the end of the week and MFI Furniture about 13½.

For most flotations, these comparisons could spell trouble, but Habitat is being presented as the sort of share that every institutional portfolio should include. A recent study of the company by John Richards of brokers Capel-Cure Myers (who are not Habitat's brokers) is being given wide circulation.

The shares, Mr Richards argues, "should justify a significant premium to the retail sector and come to be regarded as a "core" sector holding in much the same fashion as the two major newcomers in the 1970s, Mothercare and J. Sainsbury."

Habitat and its advisors agree that they are counting heavily on the institutions, looking for them to take about 70 per cent of the shares in the offer.

The final problem the would-be tenderer faces is that any tender in excess of the minimum must be made in increments of 5p, which makes the shares become expensive very quickly. At 115p, the prospective fully taxed p/e becomes nearly 16.5, at 120p, it is 17 and at 125p, 18.

The yield on the proposed 3.6p dividend is already a modest 4.7 per cent at the minimum tender price and falls to 4.1 per cent at 125p.

CMG profit jumps 145%

Pre-tax profits of CMG (Computer Management Group) in the year to May 1981 jumped 145 per cent to £1.26m before the staff participation scheme and exceptional items. CMG, a public but unquoted company, operates a computer information and consultancy service.

Turnover for the period was 13 per cent higher at £16.14m. After profits attributable to the staff participation scheme the pre-tax level rose by just over two-thirds to £855,598 before exceptional items relating to goodwill written off and an extraordinary provision of £137,000 in respect of pension funding in the Netherlands.

Since the year end CMG has acquired Incomputer Holdings, a Surrey-based computer service company, for £200,000 cash. The company has also launched MICROFACT, a microcomputer rental operation. MICROFACT achieved sales in the first three months of the current year of £0.5m. Capital investment, according to a director, Mr R. Fawcett, for the rental assets amounted to around £100,000.

At the end of May the company showed net assets a tenth higher at £923,475.

Longton chairman warns of delay in upturn

A RETURN to profitability by Longton Industrial Holdings, the freight forwarder and steel stockholder which plunged into loss last year, was by no means assured in the current period, Mr A. J. Dale, the chairman, told the annual meeting yesterday.

Sounding a cautionary note to amplify his statement which accompanied the group's accounts, he said that in the several weeks' trading since its preparation the short-term prognosis had gained some clarity.

"It now seems reasonably clear that by the spring of 1982 a number of our companies which showed losses during the year ending March 1981 will have returned to profitable trading, but it will take longer than six months to achieve profitability in the case of those companies which have been worst hit by the recession," he said.

Pre-tax losses for that year amounted to £629,264, against a profit of £1.92m, on turnover down to £35.90m (£43.21m). The total dividend paid was 1p net per 25p share (6p).

As a result of the recession, serious problems were persisting for the group's vehicle and plant distribution and crane hire operations, Mr Dale said.

Definite signs of an upturn had emerged elsewhere, particularly in the steel stockholding and engineers' supplies division but he stressed: "The timing of a return to profitability for the group as a whole is extremely difficult to predict."

An early general upturn in the economy could not be depended on, and its timing had in recent weeks become even more doubtful, he added.

Considerable progress had already been made in streamlining and revitalising the group's businesses, but he warned that a great deal more had still to be done.

In the past year Longton has closed certain depots and redeployed premises, at the same time as developing products to diversify the group's activities.

AMALGAMATED DISTILLED

Acceptances have been received in respect of 91.4 per cent of the 4.3m shares of Amalgamated Distilled Products offered in a rights issue.

FT-Actuaries changes

The following constituent changes are to be made in the FT-Actuaries series effective for next Thursday's indices:

Burco Dean (group 39), Butterfield Harvey (6), Fidelity Radio (28), Mettoy (39), Neepsend (6), Rexmore (35), United Wire Group (6), Wadkin (6) and York Trailer Holdings (9), are to be replaced by Amstrad Consumer Electronics (28), British Car Auction Group (9), Clifford's Dairies (26), L. J. Dewhirst Holdings (35), Hawley Group (29), London and Scottish Marine Oil (51), Owen Owen (34), Pleasurama (29) and Sound Diffusion (4).

Minster Assets is to be reclassified from group 70 to group 66, United Scientific Holdings from 4 to 6 and Vosper from 5 to 6.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetable.

TODAY

Interims:—Amcliffe, Bardsey, Brent Chemicals International, Hiltons Footwear, I. and J. Hyman, Metalrax, Christopher Moran, Solicitors' Law Stationery Society.

Finals:—Galliford Brindley, Kwahu, Link House Publications, Parker Knoll.

FUTURE DATES

Interims:—	
Descutter Bros.	Oct 1
Finlay (James)	Oct 8
London Atlantic Invest. Tst.	Oct 23
North British Canadian Invest.	Oct 2
Silkolene Lubricants	Oct 5
Tilbury Contracting	Sept 30
Finals:—	
Bluebird Confectionery	Oct 1
Capseals	Oct 5
Cope Allman International	Oct 6
Emess Lighting	Oct 2
Kent (M. P.)	Oct 5
Mitchell Cotts	Oct 1

M. J. H. Nightingale & Co. Limited

27/28 Lovat Lane London EC3R 8EB Telephone 01-621 1212

£000's capitalisation	Company	Price	Change on week	Gross div. (p)	Yield %	P/E Actual	P/E Fully taxed
1,714	ABI Hldgs. 10pc CULS	112	−2	10.0	8.9	—	—
3,994	Airsprung	69	−2	4.7	6.8	10.9	15.2
1,100	Armitage and Rhodes	44	−1	4.3	9.8	3.7	8.3
11,731	Bardon Hill	192	−4	9.7	5.1	9.3	11.4
7,592	Deborah Services	100	−3	5.5	5.5	5.0	9.4
4,124	Frank Horsell	110	−2	6.4	5.8	9.9	23.9
8,667	Frederick Parker	60	−1	1.7	2.8	26.0	—
1,033	George Blair	56	−3	—	—	—	—
4,061	IPC	100	−2	7.3	7.3	7.2	10.9
2,580	Jackson Group	102	−2	7.0	6.9	3.2	7.2
16,148	James Burrough	117	−6	8.7	7.4	8.5	8.0
3,009	Robert Jenkins	295	−5	31.3	10.6	4.1	10.4
2,760	Scruttons "A"	56	−2	5.3	9.4	8.6	8.0
2,877	Torday	†	—	15.1	8.1	7.2	12.4
2,584	Twinlock Ord.	12	−½	—	—	—	—
2,047	Twinlock 15pc ULS	75	—	15.0	20.0	—	—
5,493	Unilock Holdings	36	−2	3.0	8.3	6.4	10.9
11,027	Walter Alexander	87	−4	6.4	7.4	5.7	10.1
5,367	W. S. Yeates	230	−1	13.1	5.7	4.4	8.8

† Suspended.

FT Share Information

Alexander & Alexander Services (World Stock Markets—New York).

SPAIN

1981 High	1981 Low		Sept 25 Price %
388	251	Banco Bilbao	375
395	280	Banco Central	369
436	229	Banco Exterior	317
346	239	Banco Hispano	323
128	119	Banco Ind. Cat.	119
410	284	Banco Santander	389
249	146	Banco Urquijo	243
404	263	Banco Vizcaya	393
266	204	Banco Zaragoza	261
223	82	Dragados	190
81	45	Espanola Zinc	76
74.2	55.5	Fecsa	69.7
65	22	Gal. Preciados	54
88	63.5	Hidrola	78.5
62.5	52	Iberduero	57.7
128.7	70	Petroleos	118.5
85	70	Petroliber	82
102	51	Sogefisa	61
90	60	Telefonica	85
82.5	60	Union Elect.	76.2

THE TRING HALL USM INDEX

105.4 (−1.7)

at close of business 25/9/81
BASE DATE 10/11/80 100
Tel: 01-248 5675

CORAL INDEX

Close 468-473 (−19)

INTERNATIONAL CAPITAL MARKETS

INTERNATIONAL BONDS

BY ALAN FRIEDMAN

In the wake of the flood

"ONE HAS to be realistic. The market has weakened and the World Bank deal is selling at progressively lower prices. The trade became uneconomic for several sub-underwriters and they have turned it down."

This frank admission came from a senior executive at Morgan Guaranty, lead-manager of the $230m two-tranche Eurobond issue which was launched last Wednesday.

"The issue sold on Wednesday at a 1 per cent discount, but by Friday was selling at a discount of 1¾ per cent," continued the spokesman for Morgan Guaranty.

What had happened in the latter part of last week? "The psychology of the bond market changed," replied the man from Morgan.

Indeed the market itself changed. Not surprisingly, the expectation of a flood of new issues was fulfilled by mid-week. The old adage that "too much too fast" will demoralise the market was simply reinforced by last week's events.

New issues in the fixed interest Eurodollar sector totalled $370m while a string of new floating rate notes amounted to $440m. The market seemed to be doing well on Monday and Tuesday, but in the wake of the World Bank barrage, bond prices fell by more than a point between Wednesday and Friday. Interest rate movements did not help either; the six-month Eurodollar rate which had been dipping early in the week turned back up to close the week little changed at 17¼ per cent.

Most of the fixed interest launches came on Wednesday. Morgan Guaranty confirmed market rumours with its two-tranche transaction. The first tranche is a $130m five-year bond which includes a "tap" to allow the World Bank to issue up to $100m more before next March.

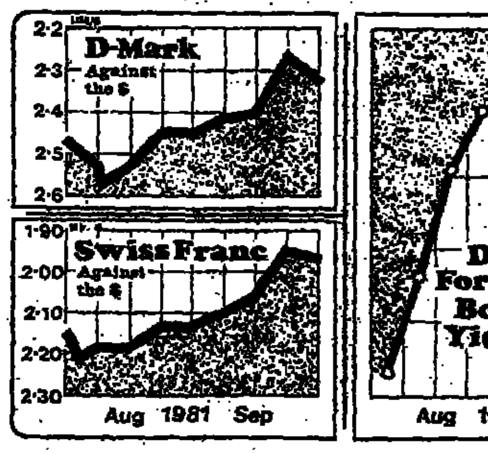
The second tranche is a seven-year $100m bond. Both tranches are priced at par and carry a 16½ per cent coupon, ¼ per cent higher than the price paid by the World Bank last month in its $290m two-tranche operation.

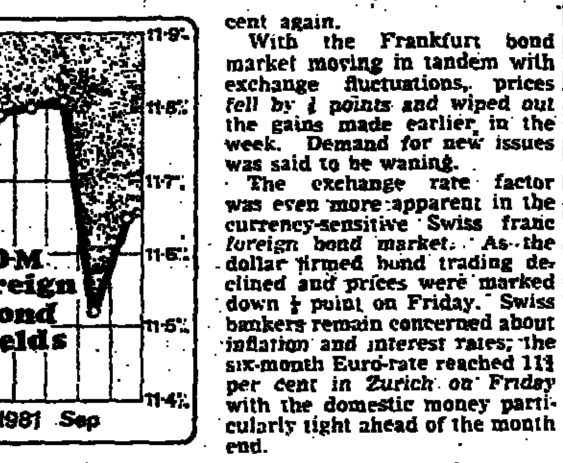
Soon after the World Bank issue hit the market, others followed. On Wednesday, Genstar, the real estate and building products group, appeared with a $75m 8-year issue at 17½ per cent. Later the same afternoon came the National Bank of Canada with a $40m 7-year offer at 16½ per cent.

The week ended with a $25m private placement for the EEC, a 12-year issue with a 17 per cent coupon, priced at par. Lead manager was Union Bank of Switzerland.

In the D-Mark foreign bond sector last week, the Bank of America opened the new three-week calendar set by the West German Capital Markets Subcommittee with a DM 75m seven-year placement.

When the DM 275m calendar was set early in the week, there was still sizable demand for new issues and the Bank of America offer could be priced at par with a coupon of 10⅜ per cent. But during the week the D-Mark weakened against the U.S. dollar (see chart) and by Friday the word in Frankfurt was that new issues would now have to carry a coupon closer to 11 per cent again.





With the Frankfurt bond market moving in tandem with exchange fluctuations, prices fell by ½ points and wiped out the gains made earlier in the week. Demand for new issues was said to be waning.

The exchange rate factor was even more apparent in the currency-sensitive Swiss franc foreign bond market. As the dollar firmed bond trading declined and prices were marked down ½ point on Friday. Swiss bankers remain concerned about inflation and interest rates; the six-month Euro-rate reached 11¾ per cent in Zurich on Friday with the domestic money particularly tight ahead of the month end.

Back in the Eurodollar sector, it was another unhappy week for convertible bonds, with the world's stockmarkets heading downward, no new Japanese convertibles appeared. The recently launched $40m 14½-year bond for L. M. Ericsson, the Swedish telecommunications group, was withdrawn from the market by lead-manager S. G. Warburg and the company. The reason cited was "the unsettled nature of the equity market."

This week, it is possible that a new sterling convertible may be launched for Nippon Seiko, the Japanese ball-bearing manufacturer. Lead manager Kleinwort Benson says it is in talks with the company and an issue of around £20m is being considered.

CURRENT INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life Years	Coupon %	Price	Lead manager	Offer yield %
U.S. DOLLARS							
††Credit Foncier de France	75	1988	7	5¼+	100	Nat. Bk. of Abu Dhabi	5.319
·§L. M. Ericsson	40	1996	15	9½	100	Svenska H'banken, S. G. Warburg, Skand. Ensk.	9.500
‡§Sumitomo Real Estate	20	1996	15	5½	100	Daiwa Securities	5.500
‡§Fuji Electric	30	1996	15	5½	100	Daiwa Securities	5.500
‡§Fujisawa Pharm.	40	1996	15	5½	100	Yamaichi Securities	5.500
‡New Brunswick Elec. Pwr.	60	1988	7	17	99½	CSFB	17.115
‡§AGA	30	1996	15	9½	100	Hambros, Svenska Hbn.	9.500
‡Gulf States O/S Fin. NV	40	1988	7	17½	100	CSFB	17.500
‡CIBC	100	1991	10	16¾	100	Hambros Bank	16.750
†Dome Petroleum	75	1988	7	*	100	Societe Generale	—
†Credit Lyonnais	50	1988	7	5¼+	100	Arab Bnkg. Corp., Credit Lyonnais	5.319
World Bank	130	1986	5	16½	100	Morgan Guaranty	16.500
World Bank	100	1988	7	16½	100	Morgan Guaranty	16.500
Nat. Bk. of Canada	40	1988	5.2	16½	100	Manufacturers Hanover	17.181
‡Genstar	75	1989	8	17½	100	Societe Gen. de Banque, Orion Royal Bank	17.500
†Lloyds Eurofinance BV	150	1993	10	5¼+	100	Lloyds Bank Intnl.	5.319
‡EEC	25	1993	8	17	100	UBS (Secs.)	17.000
†Co-ban Eurofinance BV	30	1991	10	5¼+	100	London & Contnl. Bankers, Co-operative Bank	[illegible]
†Bergen Bank	25	1991	10	5¼+	100	CSFB, Bergen Bank	[illegible]
†Industrias Penoles	40	1989	8	10¼	100	CSFB, SBC	10.250
†Cydsa	50	1988/91	—	9¼	100	Continental Illinois	—
CANADIAN DOLLARS							
‡Federal Bus. Dev. Bk.	40	1986	5	17½	99½	Wood Gundy	17.957
‡Province of Quebec	50	1987	6	18	100	Societe Generale	18.000
D-MARKS							
‡Belgelectric	100	1991	10	11	99	Deutsche Bank	[illegible]
‡**BankAmerica Fin.	75	1988	6	10¼	100	Dresdner Bank	[illegible]
SWISS FRANCS							
‡City of Gothenburg	65	1991	—	8¼	99¼	UBS	[illegible]
‡Inter-Amercn. Devlp. Bk.	80	1991	—	8½	100	Credit Suisse	8.500
City of Montreal	100	1991	—	*	*	Credit Suisse	[illegible]
I/S Elsam	30	1991	—	8¼	*	Soditic, Chase Manhattan (Suisse)	
City of Oslo	40	1991	—	8½	*	Handelsbank	
ECUs							
EIB	45	1989	6.5	14¼	100	BNP	14.250
GUILDERS							
‡EIB	200	1993	12	12¼	100	AmRo	[illegible]

* Not yet priced. § Final terms. ‡ Postponed. ** Private placement. † Floating rate note. ○ Minimum. § Convertible. †† Registered with U.S. Securities and Exchange Commission.
Note: Yields are calculated on AIBD basis.

U.S. BONDS

BY DAVID LASCELLES

Reagan fails to impress

PRESIDENT REAGAN put a brave face on Wall Street's negative reaction to his latest Budget proposals on Friday (it was "not a verdict," he said). But he can hardly fail to have been disappointed. Stocks hit a new low for the year, and long Treasury bonds sank to their lowest point ever, closing with a yield of over 15 per cent on Friday night.

Analysts had little trouble coming up with reasons: The proposed cuts were piecemeal and did not face up to the real problem of excessive defence and social security outlays. Congressional reaction was generally hostile, and Mr Reagan may not now have enough political capital to force them through. The net result will be an uncomfortably large deficit in the fiscal year that starts this Thursday.

But some analysts said the real problem was not so much the size of the deficit (where estimates vary by tens of billions of dollars) so much as the danger that the Federal Reserve might be tempted to finance the deficit itself in order to take some of the pressure off the markets. Mr Paul Volcker, the chairman, seemed anxious to dispel this idea when he reiterated for the nonth time last week that the Fed intends to stand by its firm monetary policy.

This was also the message that emerged from the tiny 1 per cent cut in the discount rate surcharge no Monday—the least that the Fed could have done to recognise that short-term interest rates have come down substantially in the last month or so. A couple of days later, the Fed also intervened in the banking system to drain reserves for the first time in many weeks, apparently signalling that the key Fed funds rate had gone down far enough (it stood at 14½ per cent at the time). The Fed repeated the operation on Friday.

The downward trend in short-term rates along with the continuing weakness of bonds itself speaks volumes for the curious state of the market. The drop in funding costs has not rallied demand for bonds, as one might have expected, nor has the more optimistic tone of the short-term markets spilled over to the long end.

The improvement in short rates stems mainly from the growth in bank reserves engineered by the Fed through its supply operations in the open market. But there is growing apprehension that this will lead to an acceleration in the money supply. M1-B, though still well under control, is edging up again (by $1bn last week) and M2 is now over target. While analysts do not rule out further cuts in the discount rate surcharge and the prime rate, it suggests that there is a limit to how far things can go.

The Fed funds market will also be facing a new test this week: The New York Clearing House, which clears dollar transactions worldwide, will be switching from overnight to same-day settlement this Thursday—a massive operation that has taken years to prepare even though it involves chopping only 16 hours off settlement times. This could produce hectic scrambles for funds which may disrupt the market until it gets used to the new system.

CREDITS

BY PETER MONTAGNON

Prime rate link in Quebec borrowing

THE PROVINCE of Quebec is raising a U.S.$600m credit in the Euromarket, believed to be the first borrowing by a Canadian entity to incorporate a pricing option related to Canadian prime rate.

Led by the National Bank of Nova Scotia the 12 year credit bears an initial margin of ⅜ per cent over Libor if funds are lent in U.S. currency. The margin rises in stages to ½ per cent after four years and to ⅝ per cent after ten.

Funds lent in Canadian currency will bear interest at Canadian prime rate for the first four years rising in stages to 5/16 over prime for the final two years.

A number of credits based on Canadian prime rate have been arranged for European borrowers, but in the Quebec case the objective is understood to be to open the door to Canadian dollar lending by foreign banks which are now setting up business in Canada.

As with U.S. prime based loans, the Canadian prime rate contains a built in profit element that is not available to banks funding themselves in the wholesale Eurodollar market.

It is thus more lucrative to lenders as well as being on the basis of past experience more expensive to the borrower.

The inclusion of the Canadian prime option thus appears to mask a slight hardening of terms for the Province of Quebec, whose last credit was a $1bn ten year operation at a split margin over Libor of ⅜-½ per cent.

This credit was arranged almost a year ago giving Quebec a certain amount of rarity value in the market, but Eurobankers are shortly to welcome an even rarer name in the form of the Republic of Austria which has not borrowed openly in the syndicated loan market since 1978.

A credit of $300m is expected. Details are currently being negotiated in Vienna and it is understood that pricing has proved rather difficult. The market in its present state would award Austria a fine ⅜-½ per cent margin, but the Austrian Finance Ministry feels that its prestige is such that even finer conditions should obtain.

Austria has chosen to return to the Eurocredit market because of the rise in yields on the domestic bond market which has reduced its scope for raising funds locally.

Elsewhere in Europe, Greece's telecommunications authority has arranged a $60m, ten-year credit at a margin of ½ per cent throughout, through Midland and S. G. Warburg.

The margin is fractionally higher than on the last Greek public sector deal and it has been arranged on a club basis. Both factors underline the impact on the market for Greece of uncertainties surrounding the forthcoming elections.

Provision figures from Morgan Guaranty meanwhile show that new Eurocredits in September totalled $5.7bn. This was below August's $7.1bn level, but a number of bankers said they were surprised at such a high September total given the recent quiet conditions in the market.

The $2bn credit for Sohi[illegible] announced on Friday nigh[illegible] accounts for a sizeable part [illegible] the September total. In addi[illegible]tion, the figures may allow f[illegible] two large credits for Indones[illegible] and Malaysia, which have bee[illegible] announced, though still n[illegible] officially mandated.

Argentina's developme[illegible] bank, BND, is seeking bids f[illegible] a $200m credit. Interest is sai[illegible] to be rather slow, despite th[illegible] success of the recent $600[illegible] credit for the Republic.

U.S. INTEREST RATES (%)

	Week to Sept 25	Week to Sept 1[illegible]
Fed Funds wkly avge	14.68	15.84
3-month Treas. bills	14.20	14.32
3-month CD	16.00	16.45
30-year Treas. bond	14.65	14.24
AAA utility	17.25	16.75
AA industrial	16.25	16.00

Source, Salomon Bros.

FT INTERNATIONAL BOND SERVICE

U.S. DOLLAR STRAIGHTS

U.S. DOLLAR STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
[illegible]						

DEUTSCHE MARK STRAIGHTS

DEUTSCHE MARK STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
[illegible]						

SWISS FRANC STRAIGHTS

SWISS FRANC STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
[illegible]						

YEN STRAIGHTS

YEN STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
[illegible]						

OTHER STRAIGHTS

OTHER STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
[illegible]						

FLOATING RATE NOTES

FLOATING RATE NOTES	Spread	Bid	Offer	C.dte	C.cpn	C.yld
[illegible]						

CONVERTIBLE BONDS

CONVERTIBLE BONDS	Cnv. date	Cnv. price	Bid	Offer	Chg. day	Prem
[illegible]						

EUROBOND TURNOVER
(nominal value in $m)

	Cedel	Euro-clear
U.S. $ bonds		
Last week	2,664.2	4,451.3
Previous week	2,346.3	4,802.0
Other bonds		
Last week	633.2	237.7
Previous week	787.0	321.9

* No information available—previous day's price.

† Only one market maker supplied a price.

STRAIGHT BONDS: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week=Change over price a week earlier.

FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum, C.dte=Date next coupon becomes effective. Spread=Margin above six-month offered rate (‡ three-month; § above mean rate) for U.S. dollars. C.cpn=The current coupon. C.yld=The current yield.

CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Chg. day=Change on day. Cnv. date=First date for conversion into shares. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

The list shows the 200 latest international bonds for which an adequate secondary market exists. The prices over the past week were supplied by: Arab Company for Trading Securities SAK; Kredietbank NV; Credit Commercial de France; Credit Lyonnais; Commerzbank AG; Deutsche Bank AG; Westdeutsche Landesbank Girozentrale; Banque Generale du Luxembourg SA; Banque Internationale Luxembourg; Kredietbank Luxembourg; Algemene Bank Nederland NV; Pierson, Heldring and Pierson; Credit Suisse/Swiss Credit Bank; Union Bank of Switzerland; Akroyd and Smithers; Bankers Trust International; Credit Commercial de France (Securities) London; Citicorp International Bank; Daiwa Europe NV; Deltec Trading Company; EBC; First Chicago; Goldman Sachs International Corporation; Hambros Bank; IBJ International; Kidder Peabody International; Manufacturers Hanover; Merrill Lynch; Morgan Stanley International; Nikko Securities Company (Europe); Orion Royal Bank; Salomon Brothers International; Samuel Montagu and Co.; Scandinavian Bank; Societe Generale Strauss Turnbull; Sumitomo Finance International; S. G. Warburg and Co.; Wood Gundy.

Closing prices on September 27

This Offer for Sale contains particulars given to comply with the regulations of the Council of The Stock Exchange for the purpose of giving information with regard to The Habitat Group PLC ("the Company"). The Directors have taken all reasonable care to ensure that the facts stated herein are true and accurate in all material respects and that there are no other material facts the omission of which would make misleading any statement herein whether of fact or of opinion. All the Directors accept responsibility accordingly. Application has been made to the Council of The Stock Exchange for the shares of the Company, issued and now being issued, to be admitted to the Official List. Copies of this Offer for Sale, together with the documents referred to below, have been delivered to the Registrar of Companies for registration.

habitat

THE HABITAT GROUP PLC

(Incorporated in England under the Companies Acts 1948 to 1967 No. 988644)

Offer for Sale by Tender

by

Morgan Grenfell & Co. Limited

and

Bank Mees & Hope NV

of up to 10,909,090 ordinary shares of 10p each at a minimum price of 110p per share for £12,000,000

The shares now offered for sale will rank in full for all dividends declared, made or paid hereafter on the shares of the Company, save for the final dividend in respect of the year ended 28th June, 1981.

The Application List for the shares now offered for sale will open at 10.00 a.m. on Thursday, 1st October, 1981 and may be closed at any time thereafter.

SHARE CAPITAL

Authorised		Issued and now being issued fully paid
£5,500,000	Ordinary shares of 10p each	£4,328,265

The issued share capital is shown on the basis of the minimum tender price.

INDEBTEDNESS

At 11th September, 1981 the Company and its subsidiaries had outstanding in aggregate term loans of £2,494,137 (£38,804 now secured), short term borrowings of £129,928 (£55,033 now secured), bank overdrafts of £6,079,600 and hire purchase commitments of £274,099. In addition, at that date, the Company had outstanding guarantees in respect of lease payments on Group properties of £476,447, but had no other outstanding guarantees except guarantees of indebtedness of its subsidiaries. Other security in respect of borrowings at that date has since been released. Save as disclosed above, neither the Company nor its subsidiaries had outstanding at 11th September, 1981 any loan capital issued (or created but unissued) or term loans, other borrowings or indebtedness in the nature of borrowing, including mortgages, charges, bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits, hire purchase commitments or guarantees or other material contingent liabilities. On 11th September, 1981 the Company and its subsidiaries had cash balances of £2,013,038. Amounts in foreign currencies have been translated for the above into sterling at the relevant rates of exchange on 11th September, 1981.

DIRECTORS AND GROUP ADDRESSES

Directors

Terence Orby Conran (Chairman), Hithercroft Road, Wallingford, Oxfordshire OX10 9DQ.
Michael Edward Tyson, 10 Cedar Street, New Rochelle, New York 10801, U.S.A.
Malcolm Ian Peacock, Hithercroft Road, Wallingford, Oxfordshire OX10 9DQ.
John Stansfield Stephenson, 28 Neal Street, London WC2H 9PH.
Francis Bruguière (French), La Maison Blanche, Route de Quarante Sous, 78630 Orgeval, France.
Christopher Michael Godsell Turner, Hithercroft Road, Wallingford, Oxfordshire OX10 9DQ.
Hugo Haarbosch (Dutch) (Non-executive), Herengracht 548, 1017 CG Amsterdam, The Netherlands.

Secretary and Registered Office

Terence Alexander Sidney Butler, Hithercroft Road, Wallingford, Oxfordshire OX10 9DQ.

Group Head Office

Hithercroft Road, Wallingford, Oxfordshire OX10 9DQ.

British Head Office

Hithercroft Road, Wallingford, Oxfordshire OX10 9DQ.

French and Belgian Head Office

La Maison Blanche, Route de Quarante Sous, 78630 Orgeval, France.

United States Head Office

10 Cedar Street, New Rochelle, New York 10801, U.S.A.

Conran Associates Head Office

28 Neal Street, London WC2H 9PH.

ADVISERS

Issuing Houses

Morgan Grenfell & Co. Limited, 23 Great Winchester Street, London EC2P 2AX.
Bank Mees & Hope NV, Herengracht 548, 1017 CG Amsterdam, The Netherlands.

Brokers

Hoare Govett Limited, Heron House, 319/325 High Holborn, London WC1V 7PB and 27 Throgmorton Street, London EC2N 2AN.

Solicitors to the Company

Allen & Overy, 9 Cheapside, London EC2V 6AD.

Solicitors to the Offer for Sale

Slaughter and May, 35 Basinghall Street, London EC2V 5DB.

Auditors and Reporting Accountants

Arthur Andersen & Co., Chartered Accountants, 1 Surrey Street, London WC2R 2PS.

Property Valuers

Knight Frank & Rutley, 20 Hanover Square, London W1R 0AH.

Principal Bankers

Bank Mees & Hope NV, Herengracht 548, 1017 CG Amsterdam, The Netherlands.

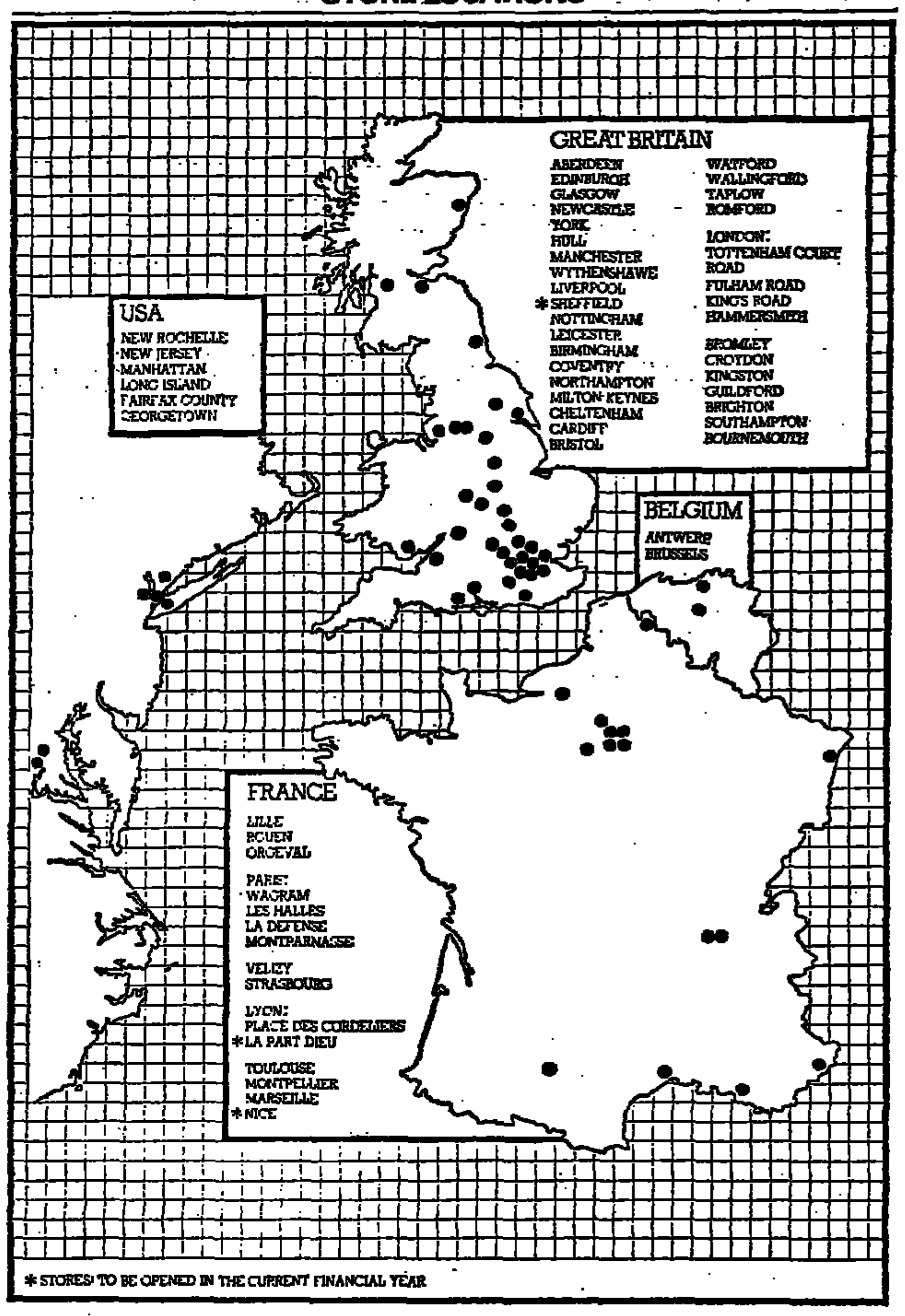
Registrars and Transfer Office

Barclays Bank Limited, Radbroke Hall, Knutsford, Cheshire WA16 9EU.

Receiving Bankers

Barclays Bank Limited, New Issues Department, P.O. Box 123, 2 London Wall Buildings, London Wall, London EC2P 2BU.

STORE LOCATIONS



KEY INFORMATION

The following information should be read in conjunction with the full text of the Offer for Sale.

Nature of Group

Habitat's activities are the retail and mail order of furniture and a wide range of products for the home in Great Britain, France and Belgium and the United States of America, and an international design consultancy business.

Five Year Record

The consolidated record for each of the five financial years to the end of June, 1981 was as follows:—

	1981	1980	1979	1978	1977
Sales, excluding sales taxes (£000)	67,165	58,213	44,603	33,903	26,859
Trading profit (£000)	5,264	4,241	3,586	2,671	1,855
Profit before taxation, including profit on sale of property (£000)	4,402	3,971	3,115	2,297	1,564
Profit on sale of property (£000)	445	511	—	—	—
Earnings per share (actual tax charge, including property profit) (pence)	8.58	8.30	6.00	3.88	2.67
Earnings per share (full tax charge, including property profit) (pence)	7.03	6.68	4.71	3.53	2.43
Property profit per share (pence)	1.33	1.57	—	—	—
Number of stores at year-end	52	47	39	37	32
Approximate area of net selling space at year-end ('000 sq. ft.)	709	616	485	439	356
Average number of full-time equivalent *employees during year*	1,701	1,620	1,429	1,197	894

Earnings per share have been adjusted for the number of new shares issued as a result of the capitalisation of reserves in September, 1981.

1980 was a 53 week year.

A full tax charge is calculated at a notional rate of 52 per cent. on profits excluding profit on sale of property.

Market Capitalisation

On the basis of the minimum tender price per share and following the Offer for Sale, the Company *will be capitalised at £47.6 million.*

Price-Earnings Ratios

On the basis of the minimum tender price per share, the historic price-earnings ratio will be 12.8 on an actual tax charge and 15.6 on a full tax charge. After excluding profit on *disposal of property, the comparable ratios will be 15.2 and 19.3* respectively.

Net Tangible Assets

Following this Offer for Sale the consolidated net tangible assets of the Group at 28th June, 1981 adjusted for the estimated net proceeds of the shares now being issued will be *£20.1 million (equivalent to 46.4p per share on the increased share capital of the Company at the* minimum tender price per share). This excludes a gross revaluation surplus on properties at that date of £1,623,000 (3.7p per share).

Dividends

In the absence of unforeseen *circumstances, dividends* in respect of the current financial year to the end of June, 1982 are expected to amount to not less than 3.6p per share (net) in total, representing a prospective gross yield at the minimum tender price per share of 4.7 per cent. It is expected that dividends will be paid in May (interim) and November (final) of each year in approximately the ratio of *one third: two thirds.*

Tender Mechanism

The Offer for Sale is for an amount of £12 million. To the extent that the striking price per share under the tender exceeds the minimum tender price per share, the number of shares sold will be reduced accordingly. All shares will be sold at the striking price.

THE HABITAT GROUP

Introduction

The information in this Offer for Sale has been supplied to the Issuing Houses by the Directors of the Company. In this Offer for Sale, the terms "Habitat" and "Group" refer to the Group consisting of the Company and its subsidiaries. In the appropriate context, the word "Habitat" is also the trade name of the Group's stores in Great Britain, France and Belgium.

General Description

Habitat's activities are the retail and mail order of furniture and a wide range of products for the home in Great Britain, France and Belgium and the United States of America, and an international design consultancy business. The Group currently has 54 stores, of which 33 are in Great Britain, 15 in France and Belgium and 6 in the United States.

A majority of the products sold by the Group are exclusive to Habitat, having been designed "in house" or in detailed collaboration with manufacturers. Many bear the Habitat trade mark. Together with items originated outside the Group, *they make up a comprehensive and cohesive range of products for* the home. Habitat is believed to be the only major chain store specialising in such a range of goods.

Each year the Group publishes a full-colour catalogue in four versions—for Great Britain, France, Belgium and the United States. Mail order accounts for about 7 per cent. of total Group retail turnover.

The Group operates an industrial design consultancy, with offices in London and Paris, providing services to clients internationally—as well as to the Group's retailing subsidiaries.

Background

Habitat was founded by Terence Conran. Having trained in design, he practised as a freelance *industrial designer in the early 1950s.* He then built up a business to include, by the early 1960s, furniture manufacture, the wholesaling of furnishing textiles and design consultancy.

In 1964, the first Habitat store was opened, in Fulham Road, London, because Terence Conran and his team considered that traditional methods of selling modern home furnishings used by established retailers were unimaginative. The product range and the way in which it was displayed were successful and four further stores had been opened in Great Britain by the end of 1968.

A merger, in 1968, with the Ryman group of office equipment suppliers proved to be unsatisfactory and in June, 1970 Terence Conran formed the Company to re-purchase the Habitat retailing and mail order elements from Ryman; the current Habitat Group has grown from this base. Since that time the Group has had no manufacturing interests.

Following the demerger, a new, independent Group head office was established alongside the warehouse and showroom at Wallingford. At the same time the industrial design consultancy, Conran Associates, was set up in Covent Garden.

Among subsequent major developments have been the moves into France in 1973, Belgium in 1975 and the United States in 1977, the opening of the Group's fiftieth store in 1980, the introduction in 1978 of an employee profit linked share plan for employees at all levels and the publication of over 1¼ million catalogues during the Group's latest financial year. The Group has twice, in 1966 and in 1975, been awarded the Royal Society of Arts Duke of Edinburgh Award for Design Management.

THE HABITAT CONCEPT

The Habitat concept is reflected in the advertising slogans used in Great Britain and France—
"Good Design at Good Prices"
"Habitat c'est ça"

Habitat's merchandise is designed and selected to satisfy the practical requirements of customers, who come from a wide range of age and income groups, by combining good style and functional appeal within a reasonable price range—in short the Habitat concept is good design at good prices.

Traditionally furniture retailers have relied upon Saturdays for a high proportion of their sales. Although Saturday is still a key day, Habitat has successfully generated sales throughout the whole week as well, by offering a wider range of products for the home. All of these products are marketed in their own right, not merely as accessories to the furniture. The full product range varies between countries of operation from 3,500 to 4,500 items and consists of not only furniture, but also linens and towels, floor coverings, soft furnishings, wallpaper and paint, lighting, china and glass, cutlery, cooking utensils, toys and games, household accessories and books and stationery. Items other than furniture make up around 60 per cent. of total retail sales.

The merchandise is presented in a straightforward way and is available, where possible, in bulk to give the stores the appearance of busy, well-organised warehouses. Furniture is displayed in simple room-settings, which are designed to enable customers to visualise the products in their own homes. Essential information about the products is usually positioned adjacent to them; this assists the stores to function largely on self-service principles.

To reduce transport costs and avoid delivery delays for customers, Habitat introduced the "take-away pack-flat" principle, whereby furniture is available for immediate collection from the stores and assembly in the home.

Although management in each country aims to cater for local demands and taste, *for reasons of* price and availability of supply every opportunity is taken to select and negotiate merchandise on a common Group basis.

Over half the products in each country of operation are supplied locally, the balance coming from a wide range of overseas sources. It is the Group's aim to establish long-term working relationships with its suppliers, wherever in the world they may be. But, as a general guideline, the Group's objective is not to be dependent on any supplier for more than 15 per cent. of any major product category nor to allow any single supplier to become dependent on Habitat for more than 30 per cent. of its own turnover.

The catalogue is a fundamental part of Habitat's marketing. It generates not only significant direct mail order sales in each country but is also designed to be a constant source of reference and pre-selection to customers in their homes.

In each country the catalogue bears a cover price and substantial quantities are sold through newsagents and booksellers as well as through the stores and by direct response advertising. Analysis of catalogue and mail order sales provides a continuing and valuable indicator for the siting of future stores.

Habitat's original design, merchandising and marketing principles have changed very little over the years and the Directors believe that their consistency of application has been the bedrock of its successful development and has done much to protect the Group from significant direct competition by other retailers.

GROUP COMPANIES

Great Britain

Habitat Designs Limited is the Company's British retailing subsidiary, which currently has 1,322 employees of whom 500 are part-time, an equivalent of 1,003 full-time employees ("full-time equivalent" employees). It operates 32 stores with a total net selling area of approximately 400,000 square feet. Typically, stores are close to, but not necessarily in, prime shopping locations and cover most of Great Britain.

Stocks are held pricipally at two locations. Furniture and fabrics are warehoused at Wellingborough, and all other products are warehoused at Wallingford. Both locations supply merchandise to the French *and American subsidiaries. Delivery of furniture direct to customers is effected through regional depots* operated by the Group or outside contractors.

The head office containing the buying, marketing, stock control, mail order and accounting functions is located at Wallingford.

The majority of sales in terms of value are made by cash or cheque, though there is a Habitat credit card and a personal loan account system *both of which* are externally financed. Leading international credit cards are also accepted.

The Directors consider that there is considerable scope for expension and growth in Great Britain and they plan to increase the number of stores substantially. Site acquisitions are in hand at several locations and consideration is being given to additional edge of town and out of town locations where sales areas could be significantly larger than the current average.

The British subsidiary also operates a contract furnishing business and is the originator of the "Housepack". The Housepack contains a selection of household furnishings to furnish substantially an empty dwelling. It has been sold extensively, for example to expatriates working in the Middle East. *Housepacks are stored at Wallingford and can be despatched anywhere in the world at twenty-four* hours' notice.

The Conran Shop is run separately from Habitat Designs Limited. It was established in 1974 on the site of the original Habitat store in the Fulham Road, London. The Conran Shop has its own management who control its buying and have a close working relationship with the design consultancy; it acts also as an informal product test bed for the main retailing subsidiaries within the Group. Its range of merchandise, which is somewhat more expensive, is generally aimed at a narrower range of customers. The Directors do not foresee a major expansion of this operation although some further stores are a possibility for the future.

In the year ended 28th June, 1981 total retail turnover was *£37,172,000 and trading* profit was £4,094,000. These represent increases of 17 per cent. and 24 per cent. respectively compared with the previous year.

France and Belgium

Habitat France S.A. is the Company's French retailing subsidiary, with its own subsidiary in Belgium. *It currently has 457 full-time equivalent* employees and operates 15 stores, including 2 in Belgium, with a total net selling area of approximately 203,000 square feet. 6 of the stores serve the centre and environs of Paris, the remainder are located in major provincial cities. The Belgian stores are in Brussels and Antwerp.

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MANAGEMENT, STAFF AND ADMINISTRATION

PROPERTY

PROFITS AND DIVIDENDS

Profits

Over the 5 years to the end of June, 1981, the Group has achieved an average annual growth in sales of 26 per cent. and an average annual growth in trading profits of 28 per cent.

Over this same five-year period the average annual increase in retail trading profits for the Group *in Great Britain has been 27 per cent. Since it first became profitable during the financial year to the end of* June, 1977, the French and Belgian retail operation has increased its trading profits by an annual average of 39 per cent. in local currency terms.

Given the background of a severe recession in all countries in which the Group operates, the Directors consider that the results for the 52 weeks ended 28th June, 1981 have been good, especially when compared with other recently published figures for the British retail sector. Group sales, trading profit and pre-tax profit showed increases of 15 per cent., 24 per cent. and 11 per cent. respectively – all achieved against a 53 week prior year period.

Dividends

A total net dividend equivalent to 2.67p per share in respect of the financial year to the end of June, 1981 *has been recommended to be paid to all shareholders who were on the Company's register on 21st* September, 1981.

In the future, the Directors will normally pay or recommend in respect of each financial year an interim dividend and a final dividend to be paid each May and November respectively.

In the absence of unforeseen circumstances the Directors would expect total net dividends in *1981-82 to amount to not less than 3.6p per share. The first dividend that new shareholders following this* Offer for Sale will receive would therefore be an interim net dividend for the current year of not less than 1.2p *to be paid in May, 1982 with a final dividend to be recommended for payment in November, 1982.*

OFFER FOR SALE BY TENDER AND THE PROCEEDS

Offer for Sale by Tender

The Offer for Sale is by means of a tender whereby individual applicants choose the price per share at which they wish to apply subject to the stated minimum price.

Once all the applications have been received, these will be considered with a view to providing an appropriate distribution of shares among large and small investors and to establishing a market in the shares for which a reasonable spread of shareholdings is required. A price will then be fixed at which sufficient applications have been received to cover at least the total amount of the Offer for Sale. This is the "Striking Price". The Striking Price will not necessarily be the highest price at which sufficient applications (including applications *at higher prices) are received to cover the total amount of the Offer for Sale.*

Applicants tendering at a price below the Striking Price will receive no allocation of shares and will have their cheques returned to them.

All the shares will be sold at the Striking Price. Applicants tendering at or above the Striking Price may receive an allotment. If applications are at a price above the Striking Price and/or are accepted in part only, *applicants will have any surplus amount following allocation returned to them.*

Since the Offer is for a fixed amount (see "The Proceeds" below), the number of shares sold will depend upon the Striking Price. The total number of shares sold by existing shareholders and the number of new shares issued by the Company multiplied by the Striking Price will equal the fixed proceeds of the Offer.

The Offer for Sale has been underwritten at the minimum tender price. The maximum number of shares now being offered, based on the minimum tender price of 110p, is 10,909,090.

Details of how to apply for the shares now being offered for sale, are set out in "Procedure for Application" below.

The Proceeds

The shares are now being offered for £12,000,000 gross of which £1,720,000 will represent shares sold by existing shareholders, who are listed in "Statutory and General Information" below, and the remainder will represent new shares which, after deduction of the expenses of the Offer for Sale to be *borne by the Company, will raise approximately £9,500,000 of new finance for the Group.*

The proceeds received by the Company as a result of the Offer for Sale by Morgan Grenfell & Co. Limited and Bank Mees & Hope NV will be used initially to reduce existing borrowings including the injection of further permanent capital into The Conran Stores, Inc. In the longer term the increase in capital will form a basis for future expansion of the Group.

PROSPECTS

It is the Directors' intention to expand the Group in its existing areas and to open up in new areas. In Great Britain and in France and Belgium the Group's plans centre on expanding into new sites. In the United States, the immediate *task is to consolidate progress towards independent profitability.* Once this has been achieved, the Group will pursue its plans to develop the North East to its full potential and to open *stores* in other areas of the North American continent. The *long-term growth prospects here* are considered by the Directors to be at least as great as in Europe.

At present Habitat operates in mainland Europe only in France and Belgium, but the Habitat formula *is believed to be applicable to certain other European countries. As with the French and American* subsidiaries, it can be expected that any such ventures will incur start-up losses, but the Directors would plan for these to be absorbed within the overall growth of the Group's profitability.

A feasibility study is currently being carried-out with the Seibu Group, one of the major retailers in Japan, to examine the viability of a partnership venture in that country. Such a venture could also present *significant opportunities for the further development of Far Eastern sources of supply for the Group's* existing retail activities in Europe and the United States. It is anticipated that a final decision will be made early in 1982; this venture is not expected to involve the Company in a large financial commitment.

5 new store openings are planned during the current financial year. These include the Aberdeen store opened at the end of August and the Toulouse store opened at the beginning of September. The others are in Sheffield, a second outlet in Lyon and one in Nice. Many other prospects are under active consideration throughout the Group.

Although no acquisition of existing businesses has been made to date, opportunities are continually being reviewed and, if thought appropriate, the Directors would be prepared to expand the Group in this way.

The Directors have decided that, because the Company's financial year is 12 weeks old and the very *important Christmas and "Sales" trading periods are yet to come,* it is inappropriate at this time to make a profits forecast for the year to 27th June, 1982.

However, they are pleased to report that total retail sales of the Group for the first 12 weeks of this year *are 20 per cent. ahead of the comparable period last year, exceeding the overall growth rate achieved* in the previous financial year.

The Directors are confident that their management policies and their programme of store openings will enable Habitat to maintain growth in the foreseeable future.

ACCOUNTANTS' REPORT

The following is a copy of a report received from Arthur Andersen & Co., the Group's auditors and reporting accountants:–

"The Directors,
The Habitat Group PLC.
Morgan Grenfell & Co. Limited
Bank Mees & Hope NV

23rd September, 1981

Gentlemen,

We have audited the balance sheet of The Habitat Group PLC ("the Company") and the consolidated statement of net tangible assets of the Company and its subsidiaries ("the Group") as at the end of June (see Accounting Policies Note (b)), 1977, 1978, 1979, 1980 and 1981, *and the related consolidated statements of profit and loss and source and application of* funds for the years then ended, in accordance with approved Auditing Standards.

The financial information presented below is based on the audited accounts.

In our opinion, the financial information shown below, which has been prepared on the basis of the accounting policies described below, gives a true and fair view of the net tangible assets of the Group as at the end of June (see Accounting Policies (b)), 1977, 1978, 1979 and 1980 and of the state of affairs of the Company and of the Group as at the end of June, 1981 and of the related profits and source and application of funds of the Group for each of the five years referred to above.

We have also audited the consolidated current cost statements of net tangible assets and profit and loss, which have been prepared *on the bases described in the notes to the statements. In our opinion, such statements give a true* and fair view, on the bases described in the notes, of the state of affairs of the Group as at the end of June, 1980 and 1981 and of the related profits for the years then ended.

ACCOUNTING POLICIES

The significant accounting policies adopted in arriving at the financial information set out in this report are as follows:–

(a) Accounting convention

The financial information has been prepared under the historical cost convention except that, for years prior to that ended on 28th June, 1981, freehold properties, since sold, were included at professional valuation less depreciation.

(b) Basis of consolidation

The Group accounts include the accounts of the Company and of all its subsidiaries, drawn up to the close of business on the last Sunday in June. Intra-Group transactions and the related tax effects have been eliminated in consolidation.

(c) Sales

Sales are stated after deduction of returns, allowances and sales taxes.

(d) Translation of foreign currencies

Assets and liabilities denominated in foreign currency are translated into sterling at the rates of exchange ruling at each balance sheet date. Profit and loss items have been translated at the average rates ruling during each year. Translation gains and losses are taken to reserves. Exchange gains and losses on trading accounts are included in trading profit.

(e) Deferred taxation

Deferred taxation is provided on the excess of capital allowances over book depreciation, in respect of short-term timing differences and on stock appreciation relief to the extent that the Directors are of the opinion that such tax could become payable in the foreseeable future.

(f) Property and equipment

(i) Property and equipment is recorded at cost less accumulated depreciation. Depreciation is charged on a straight-line basis over the following periods:–

Freehold buildings	–100 years
Leasehold improvements	–10 years or such shorter period as may be appropriate
Store and office equipment	–5 to 7 years
Motor vehicles	–4 years.

(ii) The Group's previous accounting policy was to treat unrealised profits arising on property revaluations, net of any *corresponding losses, as increases in capital reserves. On disposal of a property, the relevant profit or loss then* realised was transferred to revenue reserves and any profit or loss against current net book value was shown in the consolidated statement of profit and loss.

This policy was followed regarding the sale and lease-back during 1980 and 1981 of freehold properties which had previously been included in the accounts at a valuation as at 16th October, 1975. All the Group's remaining freehold properties were acquired after that date and are stated at cost less depreciation.

(iii) Following the introduction in 1981 of current cost accounts, the policy will now be to reflect all unrealised profits arising on property revaluations, net of any corresponding losses, in the current cost accounts and to include freehold properties in the historical cost accounts at original cost less accumulated depreciation. On disposal of a property the relevant profit or loss against the historical cost net book value is then shown in the historical cost consolidated statement of profit and loss.

(iv) Where the sale of a freehold property is at market value and the resulting lease-back is an operating lease, the profit or loss on disposal is recognised immediately with the lease costs then being subsequently charged in the consolidated *statement of profit and loss.*

(v) Annual rental payments on certain overseas properties in France occupied under "credit bail" lease purchase *arrangements are charged in the consolidated statement of profit and loss.*

(g) Investment in subsidiary companies

The Company accounts for its investment in its subsidiaries by the equity method of accounting, whereby the original cost of the investment is adjusted for post-acquisition profits or losses. Dividends are deducted from the investment.

(h) Stock

Stock consists substantially of goods for resale and is valued at the lower of cost on the first-in, first-out basis or net realisable value.

(i) Pension contributions

Pension contributions are charged to profit and loss as incurred on an accruals basis.

CONSOLIDATED STATEMENTS OF PROFIT AND LOSS

	Note	28th June, 1981	29th June, 1980	24th June, 1979	25th June, 1978	26th June, 1977
		Years ended				
		£000	£000	£000	£000	£000
SALES, excluding sales taxes		67,165	58,213	44,603	33,903	26,859
Cost of sales and expenses		61,901	53,972	41,017	31,232	25,004
TRADING PROFIT	1	5,264	4,241	3,586	2,671	1,855
Profit on disposal of properties		445	511	—	—	—
Interest charges		(1,095)	(564)	(290)	(228)	(174)
Provision for employee profit linked share plan		(213)	(217)	(181)	(146)	(117)
PROFIT BEFORE TAXATION	1	4,402	3,971	3,115	2,297	1,564
Taxation	3	(1,540)	(1,272)	(1,210)	(1,087)	(737)
NET PROFIT		2,862	2,699	1,905	1,210	827
Translation gains (losses)		(641)	(12)	(92)	37	13
Dividends paid and proposed, after waivers	4	(514)	(269)	(132)	(44)	(25)
NET PROFIT RETAINED	5	1,707	2,418	1,681	1,203	815
EARNINGS PER SHARE	6	8.58p	8.30p	6.00p	3.68p	2.67p
DIVIDEND PER SHARE	6	2.67p	2.00p	1.33p	0.67p	0.08p

The figures for earnings per share and dividend per share shown above reflect the share capital in issue after the capitalisation of reserves in September, 1981. The earnings and dividend per share have been adjusted on the same basis as that described in Note 6.

NOTES TO THE CONSOLIDATED STATEMENTS OF PROFIT AND LOSS

1. Supplementary profit and loss information

Trading profit has been determined after charging the following items:–

	28th June, 1981	29th June, 1980	24th June, 1979	25th June, 1978	26th June, 1977
	£000	£000	£000	£000	£000
Depreciation	1,229	1,090	844	690	524
Hire of equipment	358	285	197	159	116

Translation losses in the year ended 28th June 1981 can be analysed as to £405,000 (United States) and £236,000 (France and Belgium).

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3. Long-term loans
The long-term loans comprise:-

Company 28th June, 1981		Group 28th June, 1981	29th June, 1980	24th June, 1979	25th June, 1978	26th June, 1977
£000		£000	£000	£000	£000	£000
—	Revolving bank loans	2,183	—	—	—	—
—	Store development loan at 10¼%–11% interest per annum	100	155	220	303	354
233	Hire purchase finance on plant and equipment	238	327	466	301	—
—	Mortgage on freehold property	—	389	485	401	407
—	Other loans	108	146	65	—	—
238		2,629	1,017	1,206	1,005	771
(93)	Less: Instalments repayable within twelve months	(212)	(237)	(233)	(149)	(92)
145	Total long-term loans	2,417	780	973	856	679

Except where stated long-term loans are at variable market rates of interest.

The repayment terms of these loans are as follows:-

Company 28th June, 1981		Group 28th June, 1981
£000		£000
—	Beyond 5 years	—
54	Between 2 and 5 years	2,255
91	Between 1 and 2 years	162
145	Total long-term loans	2,417

At 28th June, 1981 the revolving bank loans were secured by fixed charges on the Group's British freehold properties. At that date the store development loan was secured as to 50 per cent of the principal by a floating charge over the assets of a subsidiary company (see Note 11).

4. Investment in subsidiaries
The subsidiaries of the Company (all wholly-owned and incorporated in Great Britain except as stated) at 28th June, 1981, which are accordingly included in the financial information presented, are:-

	Year of Incorporation	Issued Capital
Habitat Designs Limited	1964	£100
Conran Associates Limited and its subsidiaries	1971	£100
Conran Advertising Limited	1980	£2
Terence Conran et Associes SARL (incorporated in France)	1976	FF20,000
The Conran Shop Limited	1976	£2
Habitat Designs Europe Limited and its subsidiaries	1972	£18,464
Habitat Designs France Limited	1973	£18,483
Habitat France S.A. (incorporated in France)	1973	FF31,318,080
Belgian Designs S.A. (incorporated in Belgium)	1974	BF500,000
The Conran Stores, Inc. (91.5% owned, incorporated in U.S.A.) (see Note 11)	1977	$850,000
Terence Conran Limited	1923	£100

The investment comprises:-

	28th June, 1981
	£000
Cost	717
Charged to capital reserve	(72)
	645
Undistributed post-formation profits less losses	
Balance, beginning of year	6,591
Profit for the year	1,510
Balance, end of year	8,101
Non-current amount due from subsidiary	118
Total investment in subsidiaries	8,869

Subsequent to 28th June, 1981 the Company received a dividend of £325,000 from Habitat Designs Limited.

5. Property and equipment
Property and equipment comprises:-

Company 28th June, 1981		Group 28th June, 1981	29th June, 1980	24th June, 1979	25th June, 1978	26th June, 1977
£000		£000	£000	£000	£000	£000
	Cost or valuation					
2,759	Freehold land and buildings	2,759	2,492	2,415	2,112	2,102
36	Leasehold improvements	7,512	6,165	3,978	2,958	2,137
490	Store and office equipment	5,179	4,602	3,431	3,858	1,995
41	Motor vehicles	366	278	175	103	83
—	Construction-in-progress	517	443	856	296	59
3,326		16,333	13,980	10,855	8,327	6,376
	Accumulated depreciation					
45	Freehold land and buildings	46	116	118	80	—
13	Leasehold improvements	2,208	1,658	1,236	907	694
239	Store and office equipment	2,643	2,208	1,738	1,330	1,109
11	Motor vehicles	128	85	65	44	44
308		5,025	4,067	3,157	2,361	1,847
3,018	Net book value	11,308	9,913	7,398	5,966	4,529

In the year ended 25th June, 1978 following the issue of Statement of Standard Accounting Practice Number 12, depreciation was provided on freehold buildings for the first time. The amounts involved were not sufficiently material to require a restatement of earlier years.

The Group has 30-year leases on three properties in France being acquired under "credit bail" lease purchase arrangements. The Group has the right to acquire the properties after the expiry of 10 years on each lease (1983, 1988 and 1991) on terms which reduce to nominal sums by the end of the following 10 years. Annual rental payments under the leases, which are being charged to profit and loss, are currently £547,000, but the amounts are subject to revision based on changes in the applicable price index in France. The current annual commitments are included in the lease commitments shown in Note 8.

A professional valuation carried out by Knight Frank & Rutley as at 28th June, 1981 revealed a surplus over current net book values of the Group's freehold and leasehold properties amounting in total to £1,623,000. This surplus has not been incorporated into these statements.

6. Deferred taxation
Deferred taxation balances for the years comprise:-

Company 28th June, 1981		Group 28th June, 1981	29th June, 1980	24th June, 1979	25th June, 1978	26th June, 1977
£000		£000	£000	£000	£000	£000
158	Excess of capital allowances over book depreciation	1,731	1,650	966	834	868
—	Stock appreciation relief	670	610	296	164	421
—	Surplus on revaluation of freeholds	—	—	30	30	30
158		2,401	2,260	1,292	1,028	1,319
—	Tax losses	—	—	—	—	(257)
(213)	ACT and foreign tax recoverable	(213)	(175)	(85)	(32)	(6)
—	Timing differences in calculation of overseas tax	—	(69)	(53)	—	—
(55)	Total deferred taxation	2,188	2,016	1,154	996	1,056

The amount of deferred taxation not provided because the Directors are of the opinion that such tax will not become payable in the foreseeable future comprises:-

Company		Group				
—	Capital allowances	240	270	70	70	70
343	Tax arising on disposal of properties	343	1,711	1,027	1,362	1,067
—	Stock appreciation relief	—	—	—	—	—
343		583	1,981	1,097	1,432	1,137

During 1981, the Group did not provide for the year's movement on deferred taxation arising from the excess of capital allowances over book depreciation in the main British retailing subsidiary amounting to £240,000. The balance brought forward together with the movement in other subsidiaries has, however, been retained, as the Directors are of the opinion that some or all could become payable in the future.

Because of the roll-over provisions of Section 115, Capital Gains Tax Act 1979, the Group has not provided for capital gains tax on the disposal of freehold properties amounting to £343,000.

Stock relief for the period ended 28th June, 1981 has been calculated on the basis of the Finance Act 1981. Apart from certain specific stocks where clawback of stock relief could still arise and for which a provision of £670,000 has been made, the possibility of clawback of stock relief claimed to date is now considered to be remote and therefore is no longer disclosed.

7. Capital commitments
The Group's capital commitments are as follows:-

	28th June, 1981
	£000
Contracts for capital expenditure	332
Capital expenditure authorised but not contracted for	4,802
Total capital commitments	5,134

8. Lease commitments
The Group leases certain office, store and warehouse properties on long-term leases expiring between 1983 and 2093, at a current aggregate annual rental of approximately £8,477,000, of which £457,000 has been guaranteed by the Company in relation to certain overseas properties. The rents payable under these leases are subject to re-negotiation at various intervals specified in the leases.

9. Contingent liabilities
As at 28th June, 1981 the Company had undertaken intra-Group guarantees of approximately £7,761,000 in relation to the financial operations of its subsidiaries.

10. Pension schemes
In Great Britain the Group maintains a fully insured contributory pension scheme which is compulsory for all full time employees between the ages of 25 and 55 who have completed one years service. The scheme provides a comprehensive range of benefits and is contracted out of the State pension scheme. In France and Belgium the Group contributes to the respective State schemes and also provides additional benefits to employees through insured schemes. There is no past service liability in respect of these schemes.

11. Change of name, status and capital structure and other matters since 28th June, 1981
An Extraordinary General Meeting of the Company was held on 17th September, 1981 for the purposes, inter alia, of:-
(i) changing the name of the Company to The Habitat Group PLC and re-registering the Company as a public company;
(ii) increasing the authorised share capital of the Company from £1,500,000 to £5,500,000 by the creation of 40,000,000 new shares ranking pari passu in all respects with existing shares; and
(iii) capitalising the share premium account and revenue reserves of the Company in the sum of £2,262,480 by the issue of two new fully paid shares for every existing share held by members registered at 15th September, 1981, such 22,624,800 new shares ranking pari passu in all respects with the existing 11,312,400 issued shares.

It has been agreed subsequent to 28th June, 1981 that the minority holdings in The Conran Stores, Inc. will be reduced to 7½ per cent of the issued common stock.

By 23rd September, 1981 all security granted by the Group in respect of Group indebtedness had been released, save for charges over certain French properties in respect of indebtedness amounting to £93,857.

12. Audited accounts
No audited accounts have been prepared since 28th June, 1981.

CONSOLIDATED CURRENT COST STATEMENTS OF PROFIT AND LOSS

	Note	Years ended 28th June, 1981	29th June, 1980
		£000	£000
SALES, excluding sales taxes		87,165	68,213
HISTORICAL COST TRADING PROFIT		5,264	4,241
Current cost adjustments	2	(869)	(789)
CURRENT COST TRADING PROFIT		4,395	3,452
Gearing adjustment		651	290
Net interest charges		(1,035)	(684)
Provision for employee profit linked share plan		(212)	(217)
CURRENT COST PROFIT BEFORE TAXATION		3,449	2,961
Taxation		(1,540)	(1,272)
CURRENT COST NET PROFIT		1,909	1,689
Translation losses		(641)	(12)
Dividends paid and proposed		(514)	(555)
CURRENT COST NET PROFIT RETAINED		754	[illegible]
CURRENT COST EARNINGS PER SHARE		5.72p	5.20p
DIVIDEND PER SHARE		2.57p	2.00p

The figures for earnings per share and dividend per share shown above reflect the share capital in issue, after the capitalisation of reserves in September, 1981.

CONSOLIDATED CURRENT COST STATEMENTS OF NET TANGIBLE ASSETS

	Note	28th June, 1981	29th June, 1980
		£000	£000
CURRENT ASSETS			
Cash and short-term deposits		1,789	907
Debtors and prepayments		5,055	3,913
Amount due on sale of property		2,430	646
Stock		13,308	11,523
		22,532	17,059
CURRENT LIABILITIES			
Bank overdrafts		5,528	4,980
Creditors and accrued liabilities		11,198	9,431
Proposed dividend		496	260
Current amount of long-term loans		212	237
Current taxation		1,130	317
		18,584	15,205
NET CURRENT ASSETS		3,993	1,854
PROPERTY AND EQUIPMENT	3	14,150	12,795
LONG-TERM LOANS		(2,417)	(780)
DEFERRED TAXATION		(2,183)	(3,016)
NET TANGIBLE ASSETS		13,548	11,853
FINANCED BY			
Issued share capital		1,130	1,127
Reserves		7,490	6,713
Capital maintenance reserve	4	4,923	4,013
SHAREHOLDERS FUNDS		13,543	11,853

NOTES TO THE CURRENT COST ACCOUNTS
1. Basis of accounting
The current cost accounts are based on the historical cost statements and the accounting policies applied thereto, after reflecting the adjustments, required by Statement of Standard Accounting Practice Number 16, described below.

The depreciation adjustment represents the additional charge against profits as a result of depreciating fixed assets based on estimated current cost rather than historical cost. It has been calculated by applying the Group's normal annual rates of depreciation to the estimated current cost of the assets employed.

Freehold and certain of the "credit bail" purchase leasehold properties located in France have been included based on a professional valuation carried out as at 28th June, 1981. The revalued amounts of other leasehold properties have not been reflected. The estimated current cost of other fixed assets has been arrived at by using the most appropriate industry-specific indices.

The cost of sales adjustment represents the difference between the value to the business of stock sold during the year on a current cost basis and the cost of stock charged in the historical cost accounts. The current cost of sales has therefore been ascertained by adjusting the historical cost of opening and closing stocks to the average current cost for the year using appropriate internal price indices.

The monetary working capital adjustment represents the effect of price changes on the monetary working capital needed to support the operations of the Group. It has been calculated by reference to relevant price indices.

The gearing adjustment represents the proportion of the current cost adjustments which relate to operating assets financed by net borrowings rather than shareholders' funds.

The price indices used above with the exception of those used in calculating the cost of sales adjustments, are those published by the Central Statistical Office in the United Kingdom and by similar bodies in France and the United States of America.

2. Current cost adjustments
These comprise:-

	Years ended 28th June, 1981	29th June, 1980
	£000	£000
Depreciation adjustment	662	582
Cost of sales adjustment	596	737
Monetary working capital adjustment	(389)	(530)
	869	789

3. Property and equipment
These comprise:-

	28th June, 1981	29th June, 1980
	£000	£000
Gross replacement cost		
Freehold land and buildings	2,863	2,860
Leasehold improvements	12,398	10,175
Store and office equipment	9,055	7,884
Motor vehicles	366	278
Construction in progress	517	443
	25,199	21,640
Accumulated depreciation		
Freehold land and buildings	48	136
Leasehold improvements	4,804	3,615
Store and office equipment	6,069	5,009
Motor vehicles	128	85
	11,049	8,845
Net book value	14,150	12,795

4. Capital maintenance reserve
This comprises:-

	28th June, 1981	29th June, 1980
	£000	£000
Surplus on revaluation of fixed assets	5,042	3,975
Stock adjustments	1,451	858
Monetary working capital adjustment	(919)	(530)
Gearing adjustment	(651)	(290)
	4,923	4,013

Yours faithfully,
Arthur Andersen & Co.,
Chartered Accountants"

SCHEDULE OF GROUP PROPERTIES

SCHEDULE OF VALUED PROPERTIES
The following property interests have been valued by Knight Frank & Rutley as at 28th June, 1981 at £4,314,859 on the basis of open market value for their existing use with vacant possession. The Directors excluded from their instructions regarding formal valuations to Knight Frank & Rutley, 58 of the Group's 73 leasehold properties, the lease rents of which have either been reviewed or are due to be reviewed over the past two or next two years and which, in the opinion of the Directors and Knight Frank & Rutley, have no material surplus value. Tenants' fixtures and fittings were excluded from the valuation. The details shown below are those pertaining at the date hereof.

The valuations of the French and United States properties have been converted into sterling at exchange rates ruling on 28th June, 1981.

LOCATION	TENURE AND RENT	APPROX. AREA (square feet)	NEXT RENT REVIEW DATE
Great Britain			
Beacon House, Queen's Road, Clifton, Bristol (Note (a))	Freehold.	36,670	—
113/118 High Street, Southampton	Freehold.	21,000	—
Ambran House, Eastfield Road, Wellingborough (Note (b))	Freehold.	120,000	—
Unit 11, Churchill Square, Brighton	Leasehold: 58 years unexpired at an annual rent of £21,645.	20,480	1983
Hithercroft Road, Wallingford (Note (b))	Leasehold: 112 years unexpired at an effective annual rent of £17,040.	42,070	1983
Units 41, 42 & 43, West Court, Birmingham Shopping Centre, Birmingham	Leasehold: 12 years unexpired at an annual rent of £32,500.	18,410	1986
Unit 45, West Court, Birmingham Shopping Centre, Birmingham	Leasehold: 12 years unexpired at an annual rent of £7,500.	3,490	1983
Unit 12, Bromley South Centre, Westmoreland Place, Bromley	Leasehold: 8 years unexpired at an annual rent of £22,500.	9,420	1985
108/110 The Promenade, Cheltenham	Leasehold: 11 years unexpired at an annual rent of £27,600.	11,470	1986
140/160 Bothwell Street, Glasgow	Leasehold: 34 years unexpired at an annual rent of £28,067.	20,670	1985
156/159 Tottenham Court Road, London W.1	Leasehold: 6 years unexpired at an annual rent of £10,000.	8,150	—
Unit 14 Ridgefield House, John Dalton Street, Manchester	Leasehold: 7 years unexpired at an effective annual rent of £18,750.	9,820	—
144/147 Victoria Centre, Nottingham	Leasehold: 11 years unexpired at an annual rent of £44,000.	15,300	1985
38/40/42 Market Place, Romford	Leasehold: 18 years unexpired at an annual rent of £55,000.	11,400	1984
France			
11 rue de l'Arrivée, Montparnasse, Paris	Credit Bail: 12 years unexpired at an annual rent of FF 1,440,000 indexed. Option to purchase freehold.	21,960	—
Route de Quarante Sous, Orgeval (Note (b))	Credit Bail: 16 years unexpired at an annual rent of FF 2,050,000 indexed. Option to purchase freehold.	68,060	—
25 rue aux Juifs, Rouen	Leasehold: 7 years unexpired at an annual rent of FF 150,000. Indexed rent increase in 1983.	12,660	—
United States			
Citicorp Center, Manhattan, New York	Leasehold: 21 years unexpired at an annual rent related to turnover, subject to a minimum of $350,000.	39,640	—

Notes–
(a) The property at Bristol is vacant, pending occupation by the Company following improvement works, for which no contract has yet been entered into. Valued in its existing state.
(b) The properties at Wellingborough, Wallingford and Orgeval are used primarily as warehouses and the remainder as shops.

SCHEDULE OF PROPERTIES NOT VALUED
The Group's remaining property interests are as follows:-

LOCATION	TENURE AND RENT	APPROX. AREA (square feet)	NEXT RENT REVIEW DATE
Great Britain			
Clifton Heights, Bristol	Leasehold: 25 years unexpired at an annual rent of £22,500.	7,000	1984
380/388 Union Street, Aberdeen	Leasehold: 26 years unexpired at an annual rent of £41,250.	16,000	1986
5 Avon Trading Estate, London W.14 (Note (a))	Leasehold: 3 years unexpired at an annual rent of £17,000.	10,000	1982
Unit 18, East Mains Industrial Estate, Broxburn, West Lothian (Note (a))	Leasehold: 1 year unexpired at an annual rent of £4,650.	3,000	—
Parkway House, Avenue Road, Bournemouth	Leasehold: 34 years unexpired at an annual rent of £29,000.	18,000	1984
14 Wharton Street, Cardiff	Leasehold: 29 years unexpired at an annual rent of £57,500.	15,000	1985
63/64 Hertford Street, Coventry	Leasehold: 28 years unexpired at an annual rent of £45,000.	16,000	1984
1111/1114 Whitgift Centre, Croydon	Leasehold: 38 years unexpired at an annual rent of £22,500.	22,000	1981
32 Shandwick Place, Edinburgh	Leasehold: 28 years unexpired at an annual rent of £39,000.	20,000	1984
34/36 Shandwick Place, Edinburgh	Leasehold: 28 years unexpired at an annual rent of £20,000.	3,000	1982
4/6 North Street, Guildford	Leasehold: 11 years unexpired at an annual rent of £45,000.	13,000	1986
Kings Mall, King Street, Hammersmith, London W.6 (Note (b))	Leasehold: 28 years unexpired at an annual rent of £60,000.	21,000	1984
King William House, Market Place, Hull	Leasehold: 35 years unexpired at an annual rent of £23,250.	42,000	1982
14 Eden Walk, Kingston-upon-Thames	Leasehold: 7 years unexpired at an annual rent of £58,000.	11,000	—
206/222 Kings Road, London S.W.3 (Note (b))	Leasehold: 34 years unexpired at an annual rent of £180,000.	32,000	1987
13 Belgrave Gate, Haymarket Centre, Leicester	Leasehold: 12 years unexpired at an annual rent of £27,500.	8,000	1986
17 Dawson Way, St. John's Centre, Liverpool	Leasehold: 13 years unexpired at an annual rent of £36,000.	14,000	1987
Silbury Arcade, The Shopping Centre, Milton Keynes	Leasehold: 23 years unexpired at an annual rent related to turnover.	15,000	1984
Blackettbridge, Eldon Square, Newcastle-on-Tyne (Note (b))	Leasehold: 29 years unexpired at an annual rent related to turnover, subject to a minimum of £31,648.	15,000	1981
Grosvenor Centre, Northampton	Leasehold: 15 years unexpired at an annual rent of £22,500.	15,000	1983
The Bishop Centre, Bath Road, Taplow	Leasehold: 24 years unexpired at an annual rent of £39,984.	13,000	1983
155 Tottenham Court Road, London W.1	Leasehold: 5 years unexpired at an annual rent of £14,500.	6,650	—
66/68 Upper Richmond Road, London S.W.15	Leasehold: 18 years unexpired at an annual rent of £22,000.	8,000	1984
Hithercroft Road, Wallingford (Note (a))	Leasehold: 50 years unexpired at an annual rent of £230,000.	105,000	1988
Hithercroft Road, Wallingford (Note (a))	Leasehold: 16 years unexpired at an annual rent of £19,000.	24,000	1982
Hithercroft Road, Wallingford	Leasehold: 3 years unexpired at an annual rent of £6,000.	2,000	—
18 Queens Road, Watford	Leasehold: 30 years unexpired at an annual rent of £28,000.	10,000	1981
Southmoor Road, Wythenshawe	Leasehold: 23 years unexpired at an annual rent of £45,000.	43,000	1981
26/27 High Ousegate, York	Leasehold: 24 years unexpired at an annual rent of £35,000.	13,000	1985
42/44 Earlham Street, London W.C.2	Leasehold: 7 years unexpired at an annual rent subject to negotiation.	1,000	1983
26 Neal Street, London W.C.2	Leasehold: 6 years unexpired at an annual rent of £17,500.	4,000	1981
28 Neal Street, London W.C.2	Leasehold: 6 years unexpired at an annual rent of £10,000.	4,600	1981
37 Shelton Street, London W.C.2	Leasehold: 8 years unexpired at an annual rent of £12,000.	3,600	—
39/41 Shelton Street, London W.C.2	Leasehold: 19 years unexpired at an annual rent of £18,000.	6,000	1984
58 Kimber Road, Wandsworth, London SW18 (Note (a))	Leasehold: 21 years unexpired at an annual rent of £18,500.	14,000	1981
77/79 Fulham Road and 181/185 Draycott Avenue, London S.W.3	Leasehold: 21 years unexpired at an annual rent of £23,000.	11,000	1982
France			
Forum des Halles, Paris	Leasehold: 9 years unexpired at an annual rent related to turnover, subject to a minimum of FF 1,807,000.	20,450	—
Centre Commercial, la Bourse, Marseille	Leasehold: 9 years unexpired at an annual rent related to turnover, subject to a minimum of FF 786,287.	15,150	—
Les Jonquiers de Provence, Les Pennes Mirabeau (Note (a))	Leasehold: 2 years unexpired at an annual rent of FF 60,000.	4,320	—
Centre Commercial le Polygone, Montpellier	Leasehold: 6 years unexpired at an annual rent related to turnover, subject to a minimum of FF 610,838	16,658	—
35 Avenue de Wagram, Paris	Leasehold: 8 years unexpired at an annual rent of FF 2,041,000 indexed.	28,050	—
Place des Cordeliers, Lyon	Leasehold: 3 years unexpired at an annual rent of FF 812,000 indexed.	20,859	—
Place Kléber, Strasbourg	Leasehold: 5 years unexpired at an annual rent related to turnover, subject to a minimum of FF 949,300.	16,259	—
6 Rue du Parvis St. Maurice, Lille	Leasehold: 5 years unexpired at an annual rent of FF 546,000 indexed.	14,480	—
Centre Commercial les Quatre Temps, La Défense, Paris	Leasehold: 12 years unexpired at an annual rent related to turnover, subject to a minimum of FF 1,211,000.	14,809	1984
Rue Paul Vidal, Toulouse	Leasehold: 12 years unexpired at an annual rent of FF 622,000 indexed.	13,330	—
Avenue des Frères Lumière, Trappes (Note (a))	Leasehold: 6 months unexpired at an annual rent of FF 750,000.	62,350	—
Rue du Petit Clamart, Vélizy (Note (a))	Credit Bail: 19 years unexpired at an annual rent of FF 3,330,000 indexed.	136,600	—
82 Boulevard du Montparnasse, Paris	Leasehold: 9 years unexpired at an annual rent of FF 78,000 indexed.	1,350	—
Belgium			
6 Place de la Monnaie, Brussels	Leasehold: 3 years unexpired at an annual rent of BF 11,123,000 indexed.	15,550	—
Rue du Grand Air Berchem, St. Agathe (Note (a))	Leasehold: 4 years unexpired at an annual rent of BF 336,000.	5,400	—
Groenplaats, 2 Nationalestraat, Antwerp	Leasehold: 8 years unexpired at an annual rent of BF 7,112,000 indexed.	17,600	—
Monnaie House, 22 Rue de l'Ecuyer, Brussels	Leasehold: 1 month unexpired at an annual rent of BF 148,000.	320	—
United States			
3255 Grace Street, Georgetown, Washington DC	Leasehold: 25 years unexpired at an annual rent related to turnover, subject to a minimum of $344,630.	34,500	—
10 Cedar Street, New Rochelle, New York (Note (a))	Leasehold: 8 years unexpired at an annual rent of $225,000.	70,000	1983
Fairoaks Shopping Mall, Fairfax County, Virginia	Leasehold: 15 years unexpired at an annual rent related to turnover, subject to a minimum of $174,710.	20,500	—
1900 Northern Boulevard, Manhasset, Long Island, New York	Leasehold: 19 years unexpired at an annual rent of $25,000	21,400	1984
Riverside Square, Hackensack, New Jersey	Leasehold: 19 years unexpired at an annual rent of $168,552.	28,100	1985

Notes–
(a) Includes warehousing facilities.
(b) These properties are held under an agreement to lease.

STATUTORY AND GENERAL INFORMATION

Share Capital
On 24th June, 1979, the issued share capital of the Company was £1,124,880, consisting of 11,248,086 ordinary shares of 10p, fully paid, and 54,315 shares of 10p, of which ½p each was paid up. The partly paid shares, all of which were issued under one of the Group's earlier executive share incentive schemes, became fully paid on the following dates:-

30th October, 1979	1,739
28th March, 1980	19,800
25th May, 1980	1,739
24th June, 1980	1,000
25th November, 1980	825
16th January, 1981	9,612
28th February, 1981	19,600

An issue of shares under the Executive Share Incentive Scheme was made as follows:-

3rd August, 1981	4,000 at 250p.

On 3rd August, 1981, 8,000 shares were issued to M. I. Peacock in exchange for his holding of 1 per cent. in The Conran Stores, Inc.

Pursuant to a resolution passed on 17th September, 1981:–
(i) the authorised share capital was increased from £1,500,000 to £5,500,000 by the creation of a further 40,000,000 shares of 10p each;
(ii) 22,624,800 shares of 10p each were authorised to be issued credited as fully paid to holders of existing shares by way of capitalisation of £2,262,480, being the whole of the balance standing to the credit of the share premium account and part of the balance standing to the credit of the revenue reserves of the Company, on the basis of two new shares for every existing share.

At the minimum tender price 9,345,454 shares would be issued to Morgan Grenfell & Co. Limited ("Morgan Grenfell") and Bank Mees & Hope NV ("Mees & Hope") under the agreement with Morgan Grenfell and Mees & Hope referred to below.

No material issue of shares (other than to shareholders pro rata to existing holdings) will be made within one year of the date of this Offer for Sale, without the prior approval of the Company in General Meeting and no issue of shares will be made which would effectively alter the control of the Company, without the prior approval of the Company in General Meeting.

Save as disclosed in this Offer for Sale–
(i) no share or loan capital of the Company or any of its subsidiaries has since 24th June, 1979 been issued or been agreed to be issued or is now proposed to be issued fully or partly paid, either for cash or for a consideration other than cash;
(ii) no commissions, discounts, brokerages or other special terms have been granted by the Company or any of its subsidiaries since the said date in connection with the issue or sale of any share or loan capital of such companies; and
(iii) no share or loan capital of the Company or of any of its subsidiaries is under option or agreed conditionally or unconditionally to be put under option.

Articles of Association
The Articles of Association of the Company provide, *inter alia*, as follows:–

Votes of Members
Subject to any special rights or restrictions as to voting for the time being attached to any shares and to the provisions of the Articles of Association, on a show of hands every member personally present or represented has one vote only and on a poll every member present or represented in person or by proxy has one vote for each share in the Company held by him.

Votes of Directors
A Director shall not vote in respect of any contract or arrangement or any other proposal whatsoever in which he has any material interest (otherwise than by virtue of his interests in shares or debentures or other securities of or otherwise in or through the Company) and if he shall do so, his vote shall not be counted. Providing the relevant Director is not prohibited from voting by reason of any other material interest, he shall be entitled to vote and be counted in the quorum, *inter alia*, on resolutions regarding the giving of any security or indemnity in respect of obligations incurred or guaranteed by him for the benefit of a member of the Group, on proposals concerning any other company in which the relevant Director is interested (unless his interest comprises one per cent. or more of the issued shares of any class of that company or of the voting rights attaching to the issued shares of any class of that company), on proposals concerning an offer of shares or debentures or other securities of or by any member of the Group for subscription or purchase in which offer the relevant Director is interested as a participant in the underwriting or sub-underwriting thereof, and on proposals concerning any superannuation fund, share option or other scheme for the benefit of Directors and employees generally.

The Company may by Ordinary Resolution suspend or relax these provisions to any extent or ratify any transaction not duly authorised by reason of a contravention of these provisions.

Borrowing Powers
The Directors shall, in relation to the borrowings of the Group, restrict the borrowings of the Company and exercise all voting and other rights or powers of control exercisable by the Company in relation to its subsidiaries so as to secure (as regards subsidiaries so far as by such exercise they can secure) that the aggregate nominal or principal amount (together with any fixed or minimum premium payable on final repayment) for the time being owing by the Group in respect of moneys borrowed (exclusive of moneys borrowed by the Company for the time being owing to any of its subsidiaries or by any such subsidiary for the time being owing to the Company or another such subsidiary) shall not without the previous sanction of an Ordinary Resolution exceed an amount equal to two times the aggregate of–
(i) the amount paid up on the allotted share capital of the Company; and
(ii) the amounts standing to the credit of the capital and revenue reserves of the Group including share premium account, capital redemption reserve fund and profit and loss account;

all as shown by a consolidation of the then latest audited balance sheets of the Group but after:–
(a) deducting any amount attributable to goodwill (other than goodwill arising on consolidation) and other intangible assets, the amount of any debit balance on profit and loss account and any amount distributed or resolved or recommended to be distributed to persons other than members of the Group out of profits accrued prior to the date of and not provided for in the latest audited balance sheets;
(b) excluding amounts attributable to share capital of any subsidiary not owned by the Company or another subsidiary and any sum set aside for taxation; and
(c) making such adjustments as may be appropriate to reflect any variation in the amount of such share capital and reserves arising after the date of the relevant balance sheet and any variation in the amounts attributable to the interest of the Company in the share capital of any subsidiary.

For the purpose of this provision the expression "moneys borrowed" includes the following except insofar as otherwise taken into account:–
(i) the nominal or principal amount of any share capital, debentures or borrowed moneys (together in each case with any fixed or minimum premium payable on final repayment) of any body, whether corporate or unincorporate, the beneficial interest whereof is not for the time being owned directly or indirectly by the Company or any subsidiary and the repayment whereof is guaranteed by the Company or any subsidiary;
(ii) the principal amount (together with any fixed or minimum premium payable on final repayment) of any debenture (whether secured or unsecured) of the Company or any subsidiary, being a debenture owned otherwise than by the Company or any subsidiary;
(iii) the principal amount raised by acceptances under any acceptance credit opened on behalf of and in favour of the Company or any subsidiary by any bank or accepting house;

but moneys borrowed by the Company or any subsidiary for the purpose of repaying the whole or part of moneys borrowed by the Company or any subsidiary for the time being outstanding (including any fixed or minimum premium payable on final repayment) and so to be applied within four months after being so borrowed shall, pending their application for such purpose within such period, be deemed not to be moneys borrowed.

Directors
The Directors shall not, unless otherwise determined by an Ordinary Resolution of the Company, be less than two or more than twelve in number. A Director shall not be required to hold any shares in the Company. The Directors (other than any Director who shall for the time being hold an executive office or employment under the Company or a subsidiary of the Company) shall be paid out of the funds of the Company by way of remuneration for their services as Directors such sum not exceeding £30,000 per annum as the Directors may from time to time determine or such larger sum as the Company in General Meeting shall from time to time determine and such remuneration shall be divided among them in such proportion as they may agree or, failing agreement, equally. The Directors may grant special remuneration to any Director who, being called upon, shall perform any special or extra services for or at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration (if any) as a Director. The Directors may procure the establishment and maintenance of or participate in, or contribute to any non-contributory or contributory pension or superannuation fund, scheme or arrangement or life assurance scheme or arrangement for the benefit of, and pay, provide for or procure the grant of donations, gratuities, pensions, allowances, benefits or emoluments to any persons who are or shall have been at any time Directors of the Company or in the employment or service of the Company or of any company which is or was a subsidiary of or associated with the Company or of the predecessors in business of the Company or any such subsidiary or associated company or the wives, widows, families, relatives or dependents of any such persons.

Retirement of Directors
Any Director appointed at any time by the other Directors must retire at the next Annual General Meeting after his appointment, although he shall then be eligible for re-appointment. In addition, one-third of the other Directors must retire by rotation at each Annual General Meeting. No Director who has been appointed Chairman, Managing Director or Joint Managing Director shall be obliged to retire by rotation or shall be taken into account in determining the retirement of Directors by rotation. Any Director retiring by rotation shall, unless the Company resolves otherwise, be deemed to have been re-appointed if he is qualified and willing and the office vacated by him has not been filled. No person shall be prevented from being appointed or from acting as a Director by reason only of his having attained any particular age.

Public Works Loan Board rates

Effective September 26

Years	Quota loans repaid by EIP†	Quota loans repaid at‡	Quota loans repaid at maturity§	Non-quota loans A* repaid by EIP†	Non-quota loans A* repaid at‡	Non-quota loans A* repaid at maturity§
Up to 5	15¾	16	16¼	16½	16½	16¾
Over 5, up to 10	16¼	16⅜	16½	16⅝	16¾	16⅞
Over 10, up to 15	16¼	16¼	16	16¼	16¾	16⅝
Over 15, up to 25	16	16	15⅞	16⅞	16½	16½
Over 25	15¾	15¾	15½	16½	16¼	16¼

* Non-quota loans B are 1 per cent higher in each case than non-quota loans A. † Equal instalments of principal. ‡ Repayment by half-yearly annuity (fixed equal half-yearly payments to include principal and interest). § With half-yearly payments of interest only.

APPOINTMENTS

Scottish & Newcastle director

Mr David Nickson, vice-chairman and group managing director of William Collins and Sons (Holdings), has been appointed a non-executive director of SCOTTISH AND NEWCASTLE BREWERIES. He retired as chairman of the CBI in Scotland on September 10.

*

Mr Keith Williams has become an associate director of BIS BANKING SYSTEMS. He joins the company from IBM. The following appointments have been made at BIS SOFTWARE: Mr Ian D. Muir, New York branch manager, Mr David S. Bennett, international account executive—North America, and Mr John Millward, insurance systems manager, based in London.

*

Mr A. Peart Smith has become chairman of GORDON AND GOTCH HOLDINGS following the retirement of Sir Anthony Percival. Sir Arthur Snelling has resigned from the board.

*

Mr William D. Wright, senior vice-president of the international banking group of WELLS FARGO BANK, has been appointed head of the bank's Europe/Africa/Middle East Division, headquartered in London. He succeeds Mr Donald V. Jensen, Jr, senior vice-president, who is returning to San Francisco following more than six years in the UK.

*

Mr S. P. Farr, senior partner in Dron and Wright, has been appointed a director of LONDON SHOP PROPERTY TRUST and its principal subsidiaries.

*

Mr Julian Portman has been appointed financial controller of MAGNETIC VIDEO UK, a Twentieth Century-Fox Company. He was previously with the Thorn EMI Group.

*

Mr N. S. Patel is now deputy general manager (European operations) of the BANK OF BARODA. He has succeeded Mr S. S. Master, who has been appointed a general manager of the bank from October 1 and will be leaving London.

*

Mr B. M. Johnson has become chairman and Mr H. A. Evers, vice-chairman of the FEDERATION OF DREDGING CONTRACTORS for 1981-82.

*

Mr David Stanger, managing director of Harry Stanger, has been appointed chairman of the ASSOCIATION OF CONSULTING SCIENTISTS. Mr Barry Richardson of Fenarth Research Centre has been appointed as vice-chairman.

*

Mr Charles Kirby has resigned his directorships in SOVEREIGN MARINE AND GENERAL INSURANCE COMPANY and WILLIS FABER (UNDERWRITING MANAGEMENT).

*

Dr E. A. Warman has joined INBUCON MANAGEMENT CONSULTANTS ADVANCED TECHNOLOGY GROUP has a principal. He was previously with the Perkins Engine Company.

*

Mr L Roberts has been elected president of the CHARTERED INSURANCE INSTITUTE for 1981-82 and Mr J. R. Redfern has become deputy president.

*

Mr Jeremy Mead has been appointed director and general manager of E. A. ROPER AND CO., a member of S. W. Farmer Group.

*

Mr William Shepherd has been appointed TEXACO'S general manager research, environment and safety, Europe, based in the company's London headquarters. He was senior co-ordinator, in the division of environmental affairs at the research, environment and safety department at Beacon, New York. Mr John Kalb, former general manager, research, environment and safety Europe, has retired.

*

The Minister for Health has appointed Mr H. M. Long as chairman of the new CUCKFIELD AND CRAWLEY DISTRICT HEALTH AUTHORITY (South West Thames Region) which comes into being on April 1, 1982. Mr F. T. Foyle is to be chairman of GLOUCESTERSHIRE AREA HEALTH AUTHORITY (South Western Region) for a period up to the end of March next year.

*

Mr Neil Cossons has been elected president of the MUSEUMS ASSOCIATION. He has been director of Ironbridge Gorge Museum Trust since 1971.

*

Four executives of JOHNSON CONSTRUCTION MACHINERY, Stockport, have joined the board. They are Mr M. Nugent (financial), Mr E. H. J. Hoolan (marketing), Mr M. J. Lynch (works), and Mr R. F. Miller (technical).

*

Mr John Prosser, Mr David Tebbs and Mr Ronald Yearsley have been appointed full directors of BRITISH INTELLIGENCE SERVICES.

OVERSEAS

Dr S. A. Ridgwell has been appointed president of ICI JAPAN from July 1 1982, to succeed Mr N. D. MacLeod, who is retiring. Dr J. D. Rushton, a pharmaceuticals division director, will become chairman of the ICI group of companies in Malaysia on March 1, to replace Dr Ridgwell.

*

KOKUSAI SECURITIES COMPANY, Japan, is to be formed from October 1 when Yachiyo Securities, Koa Securities and the Nomura Securities Investment Trust Sales merge. Mr S. Hikari, formerly chairman of Yachiyo Securities, will be chairman, and Mr S. Kawashima, who was president of Nomura Investment Trust Sales, is to be president of the newly-formed concern. The London representative office of Kokusai Securities will be at 2 Copthall Avenue. Mr R. Ichikawa has been appointed the company's overseas representative and will continue to manage the London office.

*

Dr A. James Meigs, former professor of economics at Claremont Men's College, has been named senior vice-president and chief economist of FIRST INTERSTATE BANK OF CALIFORNIA. He joins the bank from Oppenheimer and Co.

WORLD STOCK MARKETS

NEW YORK

CANADA

HOLLAND

NORWAY

ITALY

SWEDEN

SWITZERLAND

GERMANY

AUSTRALIA

HONG KONG

JAPAN

SOUTH AFRICA

Financial Rand US$0.77 (Discount of 27%)

BRAZIL

TEL AVIV

AUSTRIA

BELGIUM/LUXEMBOURG

FRANCE

DENMARK

SINGAPORE

Indices

NEW YORK —DOW JONES

	Sept. 25	Sept. 24	Sept. 23	Sept. 22	Sept. 21	Sept. 18	1981 High	1981 Low	Since Cmpil'tn High	Since Cmpil'tn Low
◆Industr'ls	844.61	835.14	848.94	845.70	848.58	838.19	1024.05 (27/4)	824.07 (25/9)	1051.70 (11/1/73)	41.22 (2/7/32)
H'me Bnds.	57.04	57.38	57.68	57.91	57.68	57.49	65.78 (15/1)	57.04 (25/9)	—	—
Transport.	335.48	343.72	346.94	350.82	349.84	345.61	447.38 (16/4)	335.48 (25/9)	447.38 (16/4/81)	12.23 (8/7/32)
Utilities	102.21	104.01	104.81	105.19	104.81	104.24	117.81 (5/1)	102.21 (25/9)	163.32 (20/4/69)	10.5 (28/4/42)
TradingVol 000-†	55,080	46,360	52,700	46,880	44,570	47,550	—	—	—	—

◆Day's high 834.47 low 815.36.

	Sept. 18	Sept. 11	Sept. 4	Year ago (approx)
Ind. div. yield %	6.58	6.35	6.44	5.58

STANDARD AND POORS

	Sept. 25	Sept. 24	Sept. 23	Sept. 22	Sept. 21	Sept. 18	1981 High	1981 Low	Since Cmpil'tn High	Since Cmpil'tn Low
Indust'ls	125.93	128.49	129.39	130.53	131.29	130.19	157.02 (6/1)	128.49 (24/9)	160.96 (28/11/80)	3.52 (30/6/32)
Composite	112.77	115.01	115.65	116.68	117.24	116.26	138.12 (6/1)	115.01 (24/9)	140.52 (28/11/80)	4.40 (1/6/32)

	Sept. 23	Sept. 16	Sept. 9	Year ago (approx)
Ind. div. yield %	5.52	5.36	5.36	4.60
Ind. P/E Ratio	7.90	8.15	8.13	9.03
Long Gov. Bond yield	14.30	14.13	14.53	11.62

N.Y. S.E. ALL COMMON

Sept. 25	Sept. 24	Sept. 23	Sept. 22	1981 High	1981 Low
64.96	66.42	66.74	67.43	79.14 (6/1)	64.96 (25/9)

Rises and Falls

	Sept. 25	Sept. 24	Sept. 23
Issues Traded	1,877	1,864	1,881
Rises	148	620	309
Falls	1515	816	1,268
Unchanged	214	428	304
New Highs	—	4	1
New Lows	—	153	316

MONTREAL

	Sept. 25	Sept. 24	Sept. 23	Sept. 22	1981 High	1981 Low
Industrials	310.21	324.39	328.01	332.47	409.58 (27/5)	310.21 (25/9)
Combined	293.97	305.56	308.29	312.41	375.28 (15/6)	293.97 (25/9)
TORONTO Composite	1812.48	1896.8	1923.8	1955.6	2578.3 (10/4)	1812.48 (25/9)

	Sept. 25	Sept. 24	Sept. 23	Sept. 22	1981 High	1981 Low
AUSTRALIA All Ord. (1/1/80)	584.2	589.4	600.1	601.9	737.3 (6/4)	584.2 (25/9)
Metal & Minrls (1/1/80)	—	491.2	502.7	504.2	785.2 (7/1)	491.2 (24/9)
AUSTRIA Credit Aktien (2/1/62)	54.72	54.88	54.49	54.75	66.45 (5/1)	54.0 (21/8)
BELGIUM Belgian SE (31/12/63)	72.76	72.92	72.31	72.64	86.15 (17/2)	69.56 (16/9)
DENMARK Copenhagen SE (1/1/73)	112.88	113.09	112.67	112.18	116.99 (25/8)	95.28 (2/1)
FRANCE CAC General (29/12/61)	92.68	94.00	94.5	95.8	112.5 (17/3)	77.3 (15/6)
Ind Tendance (31/12/80)	100.00	102.50	103.8	102.2	109.3 (10/3)	78.2 (12/6)
GERMANY FAZ-Aktien (31/12/58)	223.54	225.08	226.70	229.70	245.47 (6/7)	216.38 (9/2)
Commerzbank (Dec 1953)	682.40	687.30	693.7	699.7	748.9 (6/7)	665.4 (16/2)
HOLLAND ANP-CBS General (1970)	82.30	83.40	84.8	85.4	95.8 (28/8)	82.30 (25/9)
ANP-CBS Indust (1970)	65.00	66.00	66.9	66.9	76.4 (22/8)	62.8 (2/1)
HONG KONG Hang Seng Bank (31/7/64)	1351.01	1322.68	1351.91	1464.71	1810.20 (17/7)	1295.44 (11/9)
ITALY Banca Comm Ital (1972)	198.67	192.28	188.65	185.45	292.05 (3/6)	185.44 (24/7)
Japan Dow Average (16/5/49)	7383.86	7364.03	(c)	7492.96	8019.14 (17/8)	6956.52 (15/6)
Tokyo New SE (4/1/68)	552.39	554.05	(c)	594.02	603.92 (17/8)	495.79 (5/1)
NORWAY Oslow SE (1/1/72)	128.54	129.76	133.91	135.32	145.72 (6/8)	130.34 (5/6)
SINGAPORE Straits Times (1966)	666.04	666.55	668.55	674.82	975.25 (28/8)	618.25 (1/8)
SOUTH AFRICA Gold (1958)	—	692.8	705.5	715.4	797.9 (7/1)	476.8 (5/7)
Industrial (1958)	—	881.4	881.5	889.2	881.9 (25/9)	637.2 (5/2)
SPAIN Madrid SE (30/12/80)	138.30	138.56	140.07	141.48	148.15 (8/9)	100.49 (2/1)
SWEDEN Jacobson & P. (1/1/58)	541.92	549.95	548.78	546.42	680.51 (18/8)	404.17 (28/1)
SWITZERLAND SwissBankCpn. (31/12/58)	258.80	260.28	260.6	261.5	304.2 (2/4)	258.80 (25/9)
WORLD Capital Intl. (1/1/70)	—	137.4	138.6	141.2	162.8 (8/1)	137.4 (25/9)

Base values of all indices are 100 except Australia All Ordinary and Metals—500; NYSE All Common—50; Standard and Poors—10; and Toronto—1,000; the last named based on 1975. † Excluding bonds. ‡ 400 industrials. § 400 Industrials plus 40 Utilities, 40 Financials and 20 Transports. c Closed. u Unavailable.

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
Exxon	1,133,200	30	— ⅜
ATT	560,700	56⅞	— ⅜
Du Pont	553,900	37½	— ¼
IBM	521,200	53⅝	—1
Mobil	448,200	25	— ⅜
Texaco	445,400	32½	— ⅞
Burltn Ind	422,100	25½	+1
Schlumb	415,100	50½	—1½
Gen. Tel. El.	405,700	30	— ⅛
S. Cal. Edi.	405,100	27⅞	— ⅜

INSURANCE

U.S. broker gets a grip on Lloyd's

BY JOHN MOORE

THE TAKEOVER of Alexander Howden by Alexander and Alexander of the U.S. announced last week, has wide implications for Lloyd's of London insurance market.

One of the most influential members of the Lloyd's community is now to be controlled by a U.S. parent and the world's second largest insurance broker.

Over the last three years there have been other takeovers by U.S. insurance brokers of companies with large Lloyd's of London interests. But in terms of size, Howden's Lloyd's interests are much more extensive than those groups acquired in the other bids.

Howden manages the affairs of about 20 underwriting syndicates at Lloyd's through companies which form part of its group. The Howden managing agencies hire and fire the active underwriters who accept and underwrite insurance business on behalf of members of Lloyd's not working in the market.

Howden is responsible for a significant part of the underwriting fortunes of more than 6,000 out of over 19,000 Lloyd's underwriting members.

Howden also acts as a members' agent, recruiting members to Lloyd's, steering them through the application procedure and introducing them to underwriting syndicates. In that capacity the Howden agency companies have introduced members to more than 125 out of about 400 underwriting syndicates at Lloyd's.

The agency companies of insurance brokers with Lloyd's interests generate important revenues. The companies receive a profit commission of usually 20 per cent on the surpluses they make for the underwriting members and they are not liable for any losses if insurance claims exceed premiums. The losses are passed on to the members of the syndicate.

The companies also receive an "underwriting salary" based on the premiums that individual members are prepared to accept on that syndicate.

Alexander and Alexander is set to gain this valuable prize, following the removal by Lloyd's of whatever obstruction might have been in its path. Nearly a year ago, Lloyd's *relaxed its rule which limited outsiders' investment in Lloyd's* brokers to a 20 to 25 per cent *shareholding*.

Now outsiders merely have to provide a series of undertakings to escape the 20 to 25 per cent ruling and Alexander and Alexander seems prepared to comply with whatever undertaking Lloyd's is seeking.

Although more than 40 of the syndicates at Lloyd's are likely to be under the management of companies controlled by U.S. brokers after completion of the Alexander Howden takeover, all brokers who own companies which manage Lloyd's syndicates will have to divest themselves of their interests in those companies once the Lloyd's Bill of Parliament is passed.

But they will still be able to recruit members to Lloyd's through their members' agency companies.

Three years ago 40 per cent of all Lloyd's premiums of £1.6bn was produced by just three broking companies. About half the underwriting capacity was managed by agencies under the control of brokers.

Eight of the largest agencies were controlled by the eight largest brokers, which in turn produced nearly 60 per cent of the premium for Lloyd's.

This concentration of capacity has rapidly accelerated since then and it is probable that after the Howden takeover about half the underwriting capacity will be providing revenues for the world's three largest brokers.

Lloyd's market identity will be further eroded. Its largest suppliers of business will be generating more premium than individual markets which they serve. In addition, the brokers will still be allowed to own their members' agency companies, which will allow them to recruit members to Lloyd's for syndicates, although they will be forced to sell off the companies which actually manage underwriting syndicates.

Independent managing agency companies will be able to act as managing agents, recruiting members for syndicates under their management. Even so, underwriters at Lloyd's are likely to find it difficult to maintain the necessary independence from the brokers, the buyers of insurance, when so much of their future capacity in the form of new members of Lloyd's and capacity flows to the market, will be controlled by their principal producers of business.

BOND DRAWINGS

CITY OF COPENHAGEN—US.$15.000.000
6% 20 YEAR EXTERNAL LOAN OF 1965

HAMBROS BANK LIMITED hereby gives notice that, in accordance with the terms of the above loan, the redemption for 16th November, 1981, has been effected by purchase of US.$682.000 (nominal) and the under-mentioned bonds amounting to US.$318.000 (nominal) were drawn on the 15th September, 1981, for redemption at par. The outstanding balance of the loan after the 16th November, 1981, redemption is US.$4.000.000 (nominal).

The Drawn Bonds may be presented to Hambros Bank Limited, 41 Bishopsgate, London EC2P 2AA, or to the other Paying Agents named on the Bonds.

Bonds surrendered should have attached all unmatured coupons appurtenant thereto. Coupons due 16th November, 1981, should be detached and collected in the usual manner.

For payment in London, Bonds will be received on any Business Day and must be left three clear days for examination.

BONDS OF US.$1.000

392	409	561	583	683	7798	7996	8255	8256	8259	12811	12813	12860	12874	12906
795	832	1443	1680	1743	8363	8369	8401	8453	8494	12922	12935	12951	12969	12997
1882	1938	1976	1980	1982	8705	8931	9018	9021	9392	13036	13045	13069	13094	13096
2139	2141	2143	2145	2331	9398	9569	9629	9671	10003	13138	13148	13156	13164	13166
2472	2494	2497	2498	2503	10255	10297	10304	10394	10395	13196	13199	13210	13255	13263
2550	2601	2743	2808	2809	10423	10500	10512	10513	10528	13274	13303	13305	13307	13385
3002	3006	3155	3158	3211	10533	10540	10601	10637	10991	13387	13451	13535	13542	13543
3212	3235	3238	3272	3305	10993	11026	11087	11101	11104	13550	13551	13553	13568	13591
3330	3377	3401	3541	3573	11105	11107	11108	11178	11180	13620	13622	13624	13627	13636
3583	3600	3640	3652	3659	11197	11224	11227	11230	11235	13639	13651	13659	13666	13671
3671	4283	4335	4350	4362	11237	11381	11414	11423	11438	13678	13730	13743	13750	13768
4363	4600	4726	4741	4785	11443	11463	11472	11481	11580	13830	13837	13864	13897	13933
4791	4986	5069	5107	5116	11597	11602	11625	11661	11678	13962	14001	14030	14033	14051
5128	5148	5247	5430	5498	11700	11858	11865	11898	11909	14066	14067	14114	14118	14125
5562	5714	5721	5723	5760	11962	12004	12005	12010	12011	14144	14158	14206	14227	14359
5773	5777	5813	5814	5869	12014	12017	12018	12042	12045	14360	14418	14423	14470	14539
5870	6043	6171	6175	6221	12078	12079	12132	12162	12172	14555	14580	14624	14648	14674
6334	6357	6359	6428	6730	12224	12226	12248	12289	12344	14681	14693	14752	14823	14828
6799	6958	6959	6966	6972	12345	12350	12356	12357	12421	14834	14837	14838	14847	14909
6973	7071	7184	7185	7186	12448	12458	12462	12470	12523	14916	14917	14997		
7195	7238	7248	7249	7261	12544	12579	12581	12626	12703					
7622	7624	7690	7777	7781	12740	12747	12763	12780	12810					

HAMBROS BANK LIMITED
28th September 1981

COMPANY NOTICES

URQUIJO INTERNATIONAL N.V.

NOTICE OF PURCHASE

KOLDAL-SULDAL KRAFT A/S

ART GALLERIES

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WEEK'S FINANCIAL DIARY

The following is a record of the principal business and financial engagements during the week. The board meetings are mainly for the purpose of considering dividends and official indications are not always available whether dividends concerned are interims or finals. The sub-divisions shown below are based mainly on last year's timetable.

LOCAL AUTHORITY BOND TABLE

Authority (*telephone number in parentheses*)	Annual Interest gross interest	pay-able	Minimum sum	Life of bond
	%		£	Year
Knowsley (051-548 6555)	13¼	½-year	1,000	1-3

Wankie Colliery Company Limited

(Incorporated in Zimbabwe)

NOTICE TO SHAREHOLDERS

COMMENT ON THE FINANCIAL RESULTS

Sales of coal and coke were 17 per cent and 10 per cent respectively below the sales levels achieved in 1980. The Company had expected to better last year's performance; that its sales target was not achieved was due to a combination of transport difficulties, some slackening of demand from certain customers and the loss of an export market.

The reduction in the level of sales, and therefore of production, coupled with increased costs, particularly for labour and materials, resulted in a negligible trading profit. Earnings per share, including investment income, were 3.70 cents compared with 16.92 cents last year.

Shareholders were advised in the interim dividend announcement that the Company had applied to Government for an increase in local coal and coke prices from 1 April 1981 and, in a notice dated 12 May 1981, shareholders were further advised of Government's decision not to grant an increase until the coal price agreement had been amended to their satisfaction.

Negotiations were started immediately and are continuing. The coal price agreement forms an integral part of the arrangements with the financial institutions which are providing long-term loans for the expansion to serve the new power station. Accordingly, any alteration to the coal price agreement must also be approved by them.

It is essential that these matters be resolved speedily. Immediately thereafter, realistic adjustments should be made to local coal and coke prices. Without an increase in these prices, the Company's financial position will continue to deteriorate markedly.

By Order of the Board
ANGLO AMERICAN CORPORATION SERVICES LIMITED
Secretaries
per: J. R. Parker

Registered Office:
70 Samora Machel Avenue Central
P.O. Box 1108, Salisbury C4
Zimbabwe
28 September 1981

London Office:
40 Holborn Viaduct
London EC1P 1AJ

This advertisement is issued in compliance with the requirements of the Council of The Stock Exchange. It does not constitute an invitation to any person to subscribe for or purchase any share capital of the Company.

HAWLEY LEISURE LIMITED

(Registered in England No. 145906)

Capitalisation issue of up to 1,006,109 shares of £1 each credited as fully paid to be classified as 12.5 per cent. Cumulative Preference Shares.

The Council of The Stock Exchange has admitted the above mentioned securities to the Official List. Particulars of the rights attaching to these securities are available in the Extel Statistical Service and copies of such particulars may be obtained during usual business hours on any weekday (Saturdays and public holidays excepted) up to and including 12th October, 1981, from:—

Barclays Merchant Bank Limited
15/16 Gracechurch Street,
London, EC3V 0BA

28th September, 1981

AZIENDA AUTONOMA DELLE

FERROVIE DELLO STATO

U.S. $225,000,000
Floating Rate Notes 1988
Convertible until March 1988 into
11¼ per cent.
Bonds 1993

For the six months period
25th September, 1981 to 25th March, 1982

In accordance with the provisions of the Notes, notice is hereby given that the rate of interest has been fixed at 17⅝ per cent per annum, and that the interest payable on the relevant interest payment date, 25th March, 1982, against Coupon No. 2 will be U.S.$435·22.

S.G. Warburg & Co. Ltd.
Agent Bank

Companies and Markets **INTL. COMPANIES & FINANCE** | **PENDING DIVIDENDS** | **RECENT ISSUES**

UK investors to take up new shares in Cardo

BY WILLIAM DULLFORCE, NORDIC EDITOR, IN STOCKHOLM

CARDO, the investment company which owns the Swedish Sugar Company and also has extensive interests in seeds and biotechnology, has decided to issue new shares equivalent to some 5 per cent of its present SKr 312m ($56.7m) share capital to foreign investors.

The new issue of so-called "free" shares would be placed with Hambros Bank Ltd., London, which would sell them to a number of financial institutions, mostly in Britain, Cardo said.

The board will seek authority for the new share issue from an extraordinary general meeting on October 12, at which the final terms will be decided.

Mr Per Lindblad, Cardo's managing director, said the new issue had been prompted by the strong demand from foreign investors over the past year, which had been reflected in the current difference in price between the company's free and restricted shares.

The Stockholm stock market currently prices the restricted ordinary shares at SKr 295 and the "free" shares at SKr 350 each.

Foreign interest derives principally from the promising research into seed-breeding and hybridising techniques being undertaken by Cardo's subsidiaries, Hilleshög and Weibull.

After switching to a calendar year, Cardo last reported group pre-tax earnings of SKr 151m on a SKr 1.4bn turnover for the eight months ending December 30. It paid a dividend of SKr 4.25 plus a bonus of SKr 1 a share for the eight-month period.

Slowdown at Swire Properties

BY OUR HONG KONG CORRESPONDENT

SWIRE PROPERTIES, a subsidiary of the Swire Group, has announced a 55 per cent rise in profits for the first half of this year and predicted that earnings for the full year, boosted by the sale of a key property in Kuala Lumpur, will be substantially higher.

The company said attributable profits for the six months ended June 30 rose to HK$194.7m (US$31.7m), compared with HK$125.9m during the same period in 1980.

However, analysts had predicted that half year gains would top the HK$200m mark and it is clear that slowdown in pre-sales of flats at Taikooshing, the company's principal source of income, was sharper than expected.

Mr Duncan Bluck, chairman of Swire Properties, told shareholders that the continuing high level of interest rates had caused delays in the company's target for pre-sales. However, "there is evidence of a strong underlying demand for flats at Taikooshing and the position is expected to improve," he added.

The directors recommended an interim dividend of 16 cents per share, compared with 12 cents and predict a final dividend at least double the interim figure.

Braniff board changes

Braniff International, the troubled Dallas airline, announced that Ms Anne L. Armstrong and Mr Howard Swanson have resigned as directors, reports Reuter. It said that Mr Armstrong had accepted "unforeseen additional responsibilities" elsewhere. Ms Swanson was formerly the company's executive vice-president of finance.

Braniff added that Mr Robert S. Folsom, former mayor of Dallas, and Mr Paul O. Gaddis have joined the board as replacements.

Volkskas extends offer

BY JIM JONES IN JOHANNESBURG

THE BID by Volkskas, which is South Africa's fourth largest banking group, for Bank of the Orange Free State (Bankovs) has failed to attract sufficient acceptances and has been extended to October 9. The bid was subject to acceptances from 90 per cent of Bankovs' shareholders which would have allowed Volkskas to invoke the regulations of the Companies Act and acquire the entire capital of the bank. Thus far acceptances have been received in respect of 75 per cent of Bankovs' shares.

The terms of the bid are one Volkskas share for eight Bankovs and this, says Danie Van Huysteen, Volkskas managing director, will not be increased.

The object of the bid is to give Volkskas an entry into the hire purchase field, an area in which it has lagged behind the country's other major banks.

Criticism of Peabody policies by Fluor

By Paul Betts in New York

FLUOR, the world's largest construction engineering group, is considering selling its 10 per cent holding in Peabody Coal, the largest coal producer in the U.S.

Mr Robert Fluor, chairman, disclosed this to securities analysts in Chicago.

He claimed Fluor was unhappy with the way in which Peabody was currently managed and objected to the recent sale of assets by the coal company.

Peabody is currently owned by a group of major companies including Newmont Mining and Williams Companies, which each have a 27.5 per cent stake, Bechtel and Boeing, each with 15 per cent, and Equitable Life Assurance Society of America with 5 per cent.

According to Mr Fluor, Newmont and Williams together have "99 per cent management responsibility" for Peabody, whose assets total $1.3bn and whose sales last year amounted to $1.13bn.

CEAT seeking layoffs

By James Buxton in Rome

CEAT, Italy's biggest tyre and cable maker after Pirelli, has applied to put 3,500 of its 5,000 workforce on State-subsidised lay off, because of a severe cash crisis.

The group, which has made losses since 1977, is burdened by short term debt amounting to L161bn ($137m) which, with Italy's very high interest rates, are costing it L42bn a year to service.

The Turin-based concern has also been hit by the financial crisis of ENEL the State electricity authority, which has virtually ceased paying its suppliers.

PENDING DIVIDENDS

Dates when some of the more important company dividend statements may be expected in the next few weeks are given in the following table. The dates shown are those of last year's announcements, except where the forthcoming board meetings (indicated thus*) have been officially published. It should be emphasised that dividends to be declared will not necessarily be at the amounts in the column headed "Announcement last year."

	Date	Announcement last year
Anglo Amer. Inv. Tst.	Oct 2	Int. 280 cents
Associated Biscuit	Oct. 14	Int. 2.0
*Bell (A.)	Sept. 29	Final 3.96
*Bilton (Percy)	Oct. 1	Int. 2.5
*Brit. Home Stores	Oct. 21	Int. 1.75
Brooke Bond	Oct. 21	Final 2.655
*Cape Inds.	Oct. 6	Int. 3.9
*Carpets Int.	Sept. 30	Int. nil
Coates Bros.	Oct. 28	Int. 0.88
Coats Patons	Oct. 30	Int. 1.4
Currys	Sept. 29	Int. 1.5
*Dalgety	Sept. 29	Final 11.0
Debenhams	Oct. 16	Int. 2.04¼
Duport	Oct. 22	Int. nil
*Finlay (Jas)	Oct. 8	Int. 3
*Freemans	Oct. 5	Int. 1.7
Gerrard and Nat.	Oct. 15	Int. 5.0
Gill & Duffus	Oct. 23	Int. 3.6
Glaxo	Oct. 13	Final 6.0
Harrisons and Crosfield	Oct. 28	Int. 7.5
*Harris Queensway	Oct. 7	Int. 4
Hawker Siddeley	Oct. 22	Final 3.0
Hepworth (J.)	Oct. 30	Int. 3.0
Ibstock Johnsen	Oct. 14	Int. 1.5
London Brick	Oct. 27	Int. 1.734
London and Northern	Oct. 22	Int. 1.4
Marks and Spencer	Oct. 16	Int. 1.5
Mothercare	Oct. 21	Int. 1.62
Mowlem (J.)	Oct. 15	Int. 1.9
Peachey Property	Oct. 21	Final 2.5
Press (Wm.)	Oct. 30	Int. 0.6
*Ready Mixed Concrete	Sept. 29	Final 3.7
*Reed (Austin)	Oct. 1	Int. 0.9
Reed Intnl.	Oct. 28	Int. 4.0
Rockware	Oct. 8	Int. nil
*Rugby Portland Cement	Oct. 5	Int. 2.2
*Scot. Metropolitan Prop.	Oct. 7	Final 2.0
Sears Hldgs.	Oct. 7	Int. 0.7
Tozer Kemsley	Oct. 28	Int. 1.59
USM	Oct. 21	Int. 2.0
*Vickers	Oct. 1	Int. 4.55

* Board meeting intimated. † Rights issue since made. ‡ Tax free. § Scrip issue since made. ¶ Forecast.

Call to countryside users

THE HEAD of the Countryside Commission yesterday called on people using the countryside for recreation or their living to try to understand the "other chap's" point of view.

Mr Derek Barber, speaking at the opening of a new long distance footpath through Kent and Sussex, said: "I am fully aware of the anxieties of the farming community about public pressures of conservation and recreation on their land which is a farmer's workshop and livelihood.

"Within the past decade the spotlight of public interest on what farmers are doing in the countryside has become intense and unprecedented."

However, Mr Barber said, there was growing recognition among farmers and landowners that other people could enjoy the countryside without harm to farming as long as footpaths were properly signposted and there was sympathy on both sides.

Mr Barber was speaking at Camp Hill near Crowborough in East Sussex through which the 82 miles Wealdway runs.

The path from Gravesend in Kent to Eastbourne on the English Channel has been developed by enthusiasts over a number of years. Linked to the North Downs and South Downs way, it gives ramblers 200 miles of continuous walking.

Tory's 'think again' plea

A CONSERVATIVE MP has called on the Government to "think again" before going ahead with legislation to subject supplementary rate increases to a referendum.

Mr Terence Higgins, Worthing, said in a statement: "The Government is right to curb spendthrift local authorities but the right way to do this, in line with successive Conservative manifestos, is to abolish the domestic rating system, not introduce this half-baked hybrid proposal.

"It will not significantly improve management of the economy and is unprecedented and dangerous."

He added: "Extending the use of referenda is highly objectionable to all those who believe in genuine representative democracy."

RECENT ISSUES

EQUITIES

Issue price p	Amount paid up	Latest Renunc. date	1981 High	1981 Low	Stock	Closing price p	+or-	Div.	Times covered	Gross yield	P/E ratio
155	F.P.	[illegible]	[illegible]	[illegible]	Aerospace Eng.	[illegible]					
—	F.P.	[illegible]	[illegible]	[illegible]	Hartons 5p	[illegible]					
25	F.P.	[illegible]	[illegible]	[illegible]	Japan Assets Trust 10p	[illegible]					
62	F.P.	[illegible]	[illegible]	[illegible]	Jeavens Eng.	[illegible]					
28	F.P.	[illegible]	[illegible]	[illegible]	Lon. Private Health	[illegible]					
§100	F.P.	[illegible]	[illegible]	[illegible]	Marine Adv. Sail'st. 5p	[illegible]					
‖ ‖	F.P.	[illegible]	[illegible]	[illegible]	Newcourt Oil	[illegible]					
—	F.P.	[illegible]	[illegible]	[illegible]	Nippon Electric	[illegible]					
100	F.P.	[illegible]	[illegible]	[illegible]	Precious Metals Tst.	[illegible]					
—	F.P.	[illegible]	[illegible]	[illegible]	Stewart Ent. Warts.	[illegible]					
52	F.P.	[illegible]	[illegible]	[illegible]	Stockold Tst. F.E. Inv. 5p	[illegible]					
65	F.P.	[illegible]	[illegible]	[illegible]	Thompson [illegible]	[illegible]					
—	F.P.	[illegible]	[illegible]	[illegible]	UtdFrd'lyIns. S.R.V.	[illegible]					
§15	F.P.	[illegible]	[illegible]	[illegible]	Williams Systems 10p	[illegible]					
¶¶	F.P.	[illegible]	[illegible]	[illegible]	Doi Rest. Div. 10p	[illegible]					

FIXED INTEREST STOCKS

Issue price £	Amount paid up	Latest Renunc. date	1981 High	1981 Low	Stock	Closing price £	+or-
¶¶	F.P.	[illegible]	[illegible]	[illegible]	Amal. Dist. Products 10 Cv. Ln. '97	[illegible]	
100	F.P.	[illegible]	[illegible]	[illegible]	Birmingham Drop-Lock '86/93	[illegible]	
100	F.P.	[illegible]	[illegible]	[illegible]	Chloride [illegible] Conv. Pf.	[illegible]	
¶	F.P.	[illegible]	[illegible]	[illegible]	East Surrey Water 10% Prf. 1986	[illegible]	
100	F.P.	[illegible]	[illegible]	[illegible]	Hanson Trust [illegible] Cv. Uns. Ln. 2000-5	[illegible]	
98½	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
100	F.P.	[illegible]	[illegible]	[illegible]	Jones (Edward) 10% Cnv. Uns. Ln. '96-98	[illegible]	
§100	[illegible]	[illegible]	[illegible]	[illegible]	Nat'wide Bldg. Society [illegible]	[illegible]	
‡100	[illegible]	[illegible]	[illegible]	[illegible]	Do. [illegible] Bds [illegible]	[illegible]	
100	F.P.	[illegible]	[illegible]	[illegible]	Portsmouth 10½% Prf. 1986	[illegible]	
¶¶	F.P.	[illegible]	[illegible]	[illegible]	Sterling Credit [illegible] Cnv. Red. Pf.	[illegible]	
97.83	[illegible]	[illegible]	[illegible]	[illegible]	Utd. Medical [illegible]	[illegible]	
100¼p	[illegible]	[illegible]	[illegible]	[illegible]	W. Ribbons [illegible]	[illegible]	
¶100	F.P.	[illegible]	[illegible]	[illegible]	York Waterworks 10% Red. Prf. '86	[illegible]	

"RIGHTS" OFFERS

Issue price p	Amount paid up	Latest Renunc. date	1981 High	1981 Low	Stock	Closing price p	+or-
60	F.P.	[illegible]	[illegible]	[illegible]	Amal. Dist. Products	[illegible]	
10	Nil	[illegible]	[illegible]	[illegible]	Astra Ind.	[illegible]	
225	[illegible]	[illegible]	[illegible]	[illegible]	Bass	[illegible]	
275	[illegible]	[illegible]	[illegible]	[illegible]	BP	[illegible]	
75	Nil	[illegible]	[illegible]	[illegible]	Brown (J)	[illegible]	
11	F.P.	[illegible]	[illegible]	[illegible]	Gateway	[illegible]	
62	F.P.	[illegible]	[illegible]	[illegible]	H.A.T. Group	[illegible]	
12½	F.P.	[illegible]	[illegible]	[illegible]	Jantar	[illegible]	
131	F.P.	[illegible]	[illegible]	[illegible]	Jones Stroud	[illegible]	
110	F.P.	[illegible]	[illegible]	[illegible]	Laird Grp.	[illegible]	
35	F.P.	[illegible]	[illegible]	[illegible]	Lyle (Percy)	[illegible]	
107	Nil	[illegible]	[illegible]	[illegible]	Morgan Crucible	[illegible]	
‖	F.P.	[illegible]	[illegible]	[illegible]	New Court Nat. Res. War'ts	[illegible]	
A$1	F.P.	[illegible]	[illegible]	[illegible]	Pancontinental	[illegible]	
85	F.P.	[illegible]	[illegible]	[illegible]	Property Sec. Inv. [illegible]	[illegible]	
112	F.P.	[illegible]	[illegible]	[illegible]	Trusthouse Forte	[illegible]	
350p	F.P.	[illegible]	[illegible]	[illegible]	Utd. Scientific	[illegible]	

Renunciation date usually last day for dealing free of stamp duty. b Figures based on prospectus estimate. g Assumed dividend and yield. u Forecast dividend; cover based on previous year's earnings. F Dividend and yield based on prospectus or other official estimates for 1981. Q Gross. T Figures assumed. ‡ Cover allows for conversion of shares not now ranking for dividend or ranking only for restricted dividends. § Placing price to public. pt Pence unless otherwise indicated. ¶ Issued by tender. ‖ Offered to holders of ordinary shares as a "rights." ** Issued by way of capitalisation. §§ Reintroduced. ¶¶ Issued in connection with reorganisation, merger or takeover. ‖‖ Introduction. □ Issued to former preference holders. ■ Allotment letters (or fully-paid). ● Provisional or partly-paid allotment letters. ★ With warrants. †† Dealings under special Rule. ‡‡ Unlisted Securities Market. ‡‡ London Listing. ‡ Effective issue price after scrip. † Comprising 3 Ordinary and 3 Warrants.

Companies and Markets **CURRENCIES, MONEY and GOLD**

Light dims at the end of the tunnel

BY COLIN MILLHAM

Gloom and despair were the financial markets last week. A selection of disquieting events sent equities into a tail-spin, with the gilt-edged market very unsettled, while the discount houses showed a distinct preference for unloading as much paper as possible. By Thursday morning at least one house wanted a rate of 15½ per cent if it was to buy three-month Treasury bills, compared with the previous week's average tender rate of 14.4381 per cent. At Friday's tender the average rate of discount was 15.1231 per cent, which would have given a Minimum Lending Rate in the dim distant past of 15¾ per cent.

On Wednesday there was quite a large money market shortage of about £300m, which was some £100m higher than the early morning official forecast, probably the result of more tax money coming through than expected as the ending of the civil service dispute continues to produce erratic money flows.

The Bank of England was slightly over generous with its help to the market, although at a higher interest rate than the one day repurchase agreements entered into on Monday. With sterling weakening against almost all major currencies, the equity market plunging, and some unsettling political news involving both major parties, the houses were more than happy to sell large quantities of bills to the authorities.

Overnight interbank money, which had been between 13½ per cent and 14¾ per cent for most of the day, suddenly crashed to 3-4 per cent at the close when the houses were no longer looking for funds. This disturbed state of affairs continued on Thursday, as the pound continued to slide, the FT 30-share index fell sharply once again, and Eurodollar interest rates climbed ahead of President Reagan's talk on the economy.

Interest rate trends in Europe also gave little cause for encouragement, with the hoped for relaxing of German monetary policy still some way off, while there were further moves by the Bank of France to push up Paris rates and defend the franc. The light at the end of the tunnel seems to be getting fainter.

THE POUND SPOT AND FORWARD

Sept 25	Day's spread	Close	One month	% p.a.	Three months	% p.a.
U.S.	1.7820-1.8020	1.7850-1.7870	0.10-0.20c dis	−1.01	0.68-0.78dis	−1.63
Canada	2.1240-2.1540	2.1385-2.1405	0.80-0.90c dis	−4.77	2.20-2.40dis	−4.30
Nethlnd.	4.59-4.66	4.62½-4.63½	1¼-¾c pm	2.59	3¼-2¾ pm	2.59
Belgium	67.50-68.50	67.95-68.10	95-115c dis	−18.53	140-160dis	−8.82
Denmark	12.95-13.12	13.04½-13.06½	¾ore dis-par	0.34	8-9½ dis	−2.68
Ireland	1.1340-1.1470	1.1395-1.1415	0.23-0.41c dis	−3.38	0.85-1.04dis	−3.32
W. Ger.	4.13-4.19	4.14-4.15	1¼-¾pf pm	2.89	4-3½ pm	3.62
Portugal	115.50-117.25	116.25-116.75	115-550c dis	−34.25	325-550dis	−13.30
Spain	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Norway	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sweden	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Austria	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Switz.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Belgian rate is for convertible francs. Financial franc 74.05-74.15. Six-month forward dollar 1.60-1.70c dis, 12-month 2.90-3.10c dis.

THE DOLLAR SPOT AND FORWARD

Sept 25	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.7820-1.8020	1.7850-1.7870	0.10-0.20c dis	−1.01	0.68-0.78dis	−1.63
Ireland†	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Canada	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nethlnd.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Denmark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
W. Ger.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portugal	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spain	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Norway	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sweden	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Austria	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Switz.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

† UK and Ireland are quoted in U.S. currency. Forward premiums and discounts apply to the U.S. dollar and not to the individual currency.

GOLD

	Sept. 25		Sept. 24	
Gold Bullion (fine ounce)				
Close	$445½-447½	(£248½-249)	$447-449	(£251½-252½)
Opening	$452-453	(£251½-252)	$450-451	(£252-252¾)
Morning fixing	$451.75	(£252.304)	$450.50	(£251.003)
Afternoon fixing	$450.50	(£250.835)	$446.25	(£250.702)
Gold Coins				
Krugerrand	$460½-461½	(£257-257½)	$462-463	(£258¾-259½)
1/2 Krugerrand	$237-238	(£132¼-132¾)	$242-243	(£135½-136)
1/4 Krugerrand	[illegible]	[illegible]	[illegible]	[illegible]
1/10 Krugerrand	[illegible]	[illegible]	[illegible]	[illegible]
Mapleleaf	[illegible]	[illegible]	[illegible]	[illegible]
New Sovereigns	[illegible]	[illegible]	[illegible]	[illegible]
King Sovereigns	[illegible]	[illegible]	[illegible]	[illegible]
Victoria Sovs.	[illegible]	[illegible]	[illegible]	[illegible]
French 20s	[illegible]	[illegible]	[illegible]	[illegible]
50 pesos Mexico	[illegible]	[illegible]	[illegible]	[illegible]
100 Cor. Austria	[illegible]	[illegible]	[illegible]	[illegible]
$20 Eagles	[illegible]	[illegible]	[illegible]	[illegible]

OTHER CURRENCIES

Sept. 25	£	$		Note Rates
Argentina Peso	[illegible]	[illegible]	Austria	[illegible]
Australia Dollar	[illegible]	[illegible]	Belgium	[illegible]
Brazil Cruzeiro	[illegible]	[illegible]	Denmark	[illegible]
Finland Markka	[illegible]	[illegible]	France	[illegible]
Greek Drachma	[illegible]	[illegible]	Germany	[illegible]
Hong Kong Dollar	[illegible]	[illegible]	Italy	[illegible]
Iran Rial	[illegible]	[illegible]	Japan	[illegible]
KuwaitDinar(KD)	[illegible]	[illegible]	Netherlands	[illegible]
Luxembourg Fr.	[illegible]	[illegible]	Norway	[illegible]
Malaysia Dollar	[illegible]	[illegible]	Portugal	[illegible]
New Zealand Dlr.	[illegible]	[illegible]	Spain	[illegible]
Saudi Arab. Riyal	[illegible]	[illegible]	Sweden	[illegible]
Singapore Dollar	[illegible]	[illegible]	Switzerland	[illegible]
Sth. African Rand	[illegible]	[illegible]	United States	[illegible]
U.A.E. Dirham	[illegible]	[illegible]	Yugoslavia	[illegible]

† Rate given for Argentina is the commercial rate. The financial rate for sterling is 13,273-13,293 and for the dollar 7,335-7,435. *Selling rate.

EURO-CURRENCY INTEREST RATES (Market closing Rates)

Sept. 25	Sterling	U.S. Dollar	Canadian Dollar	Dutch Guilder	Swiss Franc	West German Mark	French Franc	Italian Lira	Belgian Franc Convertible	Japanese Yen
Short term	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
7 days' notice	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Month	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Three months	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Six months	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
One Year	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

SDR linked deposits: one-month [illegible] per cent; three-months [illegible] per cent; six-months [illegible] per cent; one-year [illegible] per cent. ECU linked deposits: one-month [illegible] per cent; three-months [illegible] per cent; six-months [illegible] per cent; one-year [illegible] per cent. Asian $ (closing rates in Singapore): one-month [illegible] per cent; three-months [illegible] per cent; six-months [illegible] per cent; one-year [illegible] per cent. Long-term Eurodollar two years [illegible] per cent; three years [illegible] per cent; four years [illegible] per cent; five years [illegible] per cent nominal closing rates. The following nominal rates were quoted for London dollar certificates of deposit: one-month [illegible] per cent; three months [illegible] per cent; six months [illegible] per cent; one year [illegible] per cent.

FT LONDON INTERBANK FIXING (11.00 a.m. SEPTEMBER 25)

3 months U.S. dollars		6 months U.S. dollars	
bid 17 5/8	offer 17 1/2	bid 17 5/8	offer 17 3/4

The fixing rates are the arithmetic means, rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11 am each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

LONDON MONEY RATES

Sept. 25 1981	Sterling Certificate of deposit	Interbank	Local Authority deposits	Local Auth. negotiable bonds	Finance House Deposits	Company Deposits	Discount Market Deposits	Treasury Bills ♦	Eligible Bank Bills ♦	Fine Trade Bills ♦
Overnight	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
2 days notice	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
7 days or	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
7 days notice	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
One month	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Two months	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Three months	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Six months	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nine months	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
One year	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Two years	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Local authorities and finance houses seven days' notice, others seven days' fixed. Long-term local authority mortgage rates nominally three years [illegible] per cent; four years [illegible] per cent; five years [illegible] per cent. ♦Bank bill rates in table are buying rates for prime paper. Buying rates for four-month bank bills [illegible] per cent; four-month trade bills [illegible] per cent. Approximate selling rate for one-month Treasury bills [illegible] per cent; two-months [illegible] per cent; three-months [illegible] per cent. Approximate selling rate for one-month bank bills [illegible] per cent; two-months [illegible] per cent; and three-months [illegible] per cent; one-month trade bills [illegible] per cent; two-months [illegible] per cent; three-months [illegible] per cent. Finance Houses Base Rates (published by the Finance Houses Association) 14½ per cent from September 1, 1981. Clearing Bank Deposit Rates for sums at seven days' notice [illegible] per cent. Clearing Bank Rates for lending 14 per cent. Treasury Bills: Average tender rates of discount 15.1231 per cent.

CURRENCY RATES

Sept. 25	Bank rate %	Special Drawing Rights	European Currency Unit
Sterling	—	0.641450	0.594521
U.S. $	14	1.14565	1.06530
Canadian $	19.63	1.37327	1.27405
Austria Sch.	6¾	18.6900	17.3318
Belgian F	13	45.5141	[illegible]
Danish K	11	8.32873	7.77699
D mark	7½	2.66565	2.47749
Guilder	9	2.97005	2.75674
French Fr.	9½	6.40579	5.94651
Lira	19	[illegible]	[illegible]
Yen	5½	261.204	[illegible]
Norwgn. Kr.	9	[illegible]	[illegible]
Spanish Pts.	8	110.315	102.355
Swedish Kr.	12	[illegible]	[illegible]
Swiss Fr.	6	[illegible]	[illegible]
Greek Dr'ch.	20½	—	60.7464

FT UNIT TRUST INFORMATION SERVICE

OFFSHORE & OVERSEAS—contd.

[illegible]

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

Abbey Unit Tst. Mngrs. (a)
72-80, Gatehouse Rd., Aylesbury 0296 5941

Abbey Am. Gth. Tst.	61.5	66.1	-0.2	2.19
Abbey Capital	44.3	47.9	-0.6	4.59
Abbey General	53.5	57.8	-0.4	5.31
Abbey Gilt & F.I. 1st	95.8	98.0xd	+0.2	13.25
Abbey Income	34.4	37.2	-0.7	9.43
Abbey W'w. Bd. Tst.	103.3	109.3	-0.1	6.12
Abbey Inv. Ts. Fd.	49.6	53.xd	-0.9	4.48
Equitas Prog. Tst.	77.2	83.4	-0.8	4.90

Allen Harvey & Ross Unit Tst. Mngrs.
45, Cornhill, London EC3V 3PB. 01-623 6314.

AHR Gilt Trust	81.4	85.8	.....	14.00

Allied Hambro Ltd. (a) (g)
Hambro Hse., Hutton, Brentwood, Essex.
01-588 2851 or Brentwood (0277) 211459

Balanced Funds				
Allied 1st	82.5	88.3xd	-0.6	5.92
Brit. Inds. Fund	70.8	75.8	-0.9	7.04
Growth & Income	48.1	51.5	-0.6	4.85
Elect. & Ind. Dev.	42.9	45.9	-0.3	5.23
Allied Capital	91.3	97.7	-1.5	4.87
Hambro Fund	125.3	134.1	-1.0	5.98
Hambro Acc. Fund	176.3	189.2	-1.9	4.33
Income Funds				
High Yield Fd.	59.8	64.0xd	-1.4	9.38
High Income	75.5	80.8xd	-0.7	7.92
Equity Income Fd.	43.3	46.3	-0.8	7.96
Govt. Secs.	23.0	23.4	.....	13.13
International Funds				
International	36.9	39.5	-0.1	2.15
Japan Fund	30.3	32.4	-0.2	0.51
Pacific Fund	74.2	79.4	+0.2	1.31
Secs. Of America	83.6	89.4	-0.6	2.68

Craigmount Unit Tst. Mgrs. Ltd.
Bucklersbury, London EC4N 8BD. 01-248 4984

High Income	30.8	33.6	-1.1	13.55
North American	60.7	65.xd	-1.1	2.80
Canadian Exempt*	66.7	72.7	.....	3.77
Canadian Trust	57.8	64.6	-1.0	2.78
Mid Mount High Inc.*	43.1	45.6	.....	10.57
Recovery	47.1	51.0	-2.2	8.34
Gilt Trust	37.4	39.3xd	.....	14.75

*Weekly dealing day Wednesday.

Crescent Unit Tst. Mngrs. Ltd. (a)(g)
4 Melville Cres., Edinburgh 3 031-226 4931

Cres. Amer. Fd.	40.6	53.8	.....	0.57
Cres. Internat'l.	89.3	95.4	-0.1	1.56
Cres. High. Dist.	40.7	46.0	-0.8	10.23
Cres. Reserves	47.1	50.9	+0.1	5.91
Cres. Tokyo	40.4	43.6xd	-0.5	0.28

Darlington Unit Trust Mngt. Ltd.
Bridge Chambers, Barnstaple, Devon 0271 76324

Total Perf. Unit Tst.	23.0	24.7	.....	7.83

Discretionary Unit Fund Managers
36/38 New Broad St, EC2M 1NU. 01-638 4485

Disc. Inc. Sept. 25	224.1	239.1	-35.9	5.61

E. F. Winchester Fund Mngt. Ltd.
44, Bloomsbury Square, WC1A 2RA 01-623 8893

Great Winchester	18.8	20.9xd	.....	8.30
Gt. Winchester O'seas	30.8	34.2xd	.....	3.40

For Emson and Dudley see Robert Fraser Tst. Mgmt.

Equity & Law Un. Tr. M. (a) (b) (c)
Amersham Rd., High Wycombe. 0494 33377

Equity & Law	85.0	89.4	-0.3	5.02

Fidelity International Management Ltd.
20, Abchurch Lane, London EC4N 7AL. 283 9911

American	36.4	40.1	+0.2	0.35
Amer. Spec. Sits.	27.0	29.7	.....	0.01
Gilt & Fixed Int.	21.7	22.5	-0.2	13.94
Growth & Income	30.0	32.7	-0.5	7.72
Max. Inc. Eq. Tst.	26.5	29.2xd	-0.5	9.69
Special Sits.	34.2	37.5xd	-0.4	1.32

James Finlay Unit Trust Mngt. Ltd.
10-14, West Nile Street, Glasgow. 041-204 1321

[illegible]

Lloyd's Life Unit Tst. Mngrs. Ltd.

Local Authorities' Mutual Invest. Tst.*

M & G Group (y)(c)(z)

INSURANCE PROPERTY BONDS

OFFSHORE & OVERSEAS FUNDS

Continued on previous page

FT SHARE INFORMATION SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Five to Fifteen Years

Over Fifteen Years

Undated

INT. BANK AND O'SEAS GOVT. STERLING ISSUES

CORPORATION LOANS

COMMONWEALTH AND AFRICAN LOANS

LOANS

Public Board and Ind.

Financial

Building Societies

FOREIGN BONDS & RAILS

AMERICANS

CANADIANS

BANKS AND HIRE PURCHASE

Hire Purchase, etc.

BEERS, WINES AND SPIRITS

BUILDING INDUSTRY, TIMBER AND ROADS

CHEMICALS, PLASTICS

CHEMICALS, PLASTICS—Cont.

DRAPERY AND STORES

ELECTRICALS

ENGINEERING MACHINE TOOLS

FOOD, GROCERIES, ETC.

FOOD, GROCERIES—Cont.

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS—Continued

[illegible]

INSURANCE—Continued

[illegible]

LEISURE

[illegible]

MOTORS, AIRCRAFT TRADES

Motors and Cycles

[illegible]

Commercial Vehicles

[illegible]

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING ADVERTISING

[illegible]

INSURANCE

[illegible]

PROPERTY—Continued

[illegible]

SHIPPING

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TOBACCOS

[illegible]

TRUSTS, FINANCE, LAND

Investment Trusts

[illegible]

PROPERTY

[illegible]

INVESTMENT TRUSTS—Cont.

[illegible]

Finance, Land, etc.

[illegible]

OIL AND GAS

[illegible]

OIL AND GAS—Continued

[illegible]

OVERSEAS TRADERS

[illegible]

RUBBERS AND SISALS

[illegible]

TEAS

India and Bangladesh

[illegible]

Sri Lanka

[illegible]

Africa

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Finance

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

MINES—Continued

Australian

[illegible]

Tins

[illegible]

Copper

[illegible]

Miscellaneous

[illegible]

NOTES

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 30 per cent and allow for value of declared distribution and rights.

- ● "Tap" Stock.
- * Highs and Lows marked thus have been adjusted to allow for rights issues for cash.
- † Interim since increased or resumed.
- ‡ Interim since reduced, passed or deferred.
- ‡‡ Tax-free to non-residents on application.
- ♦ Figures or report awaited.
- ♦ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Dealt in under Rule 163(2)(a); not listed on any Stock Exchange and not subject to any listing requirements.
- ‡‡ Dealt in under Rule 163(3).
- # Price at time of suspension.
- ¶ Indicated dividend after pending scrip and/or rights issue: cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress.
- ♦ Not comparable.
- ♦ Same interim: reduced final and/or reduced earnings indicated.
- § Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ★ Cover does not allow for shares which may also rank for dividend at a future date. No P/E ratio usually provided.
- ‖ No par value.

♦♦ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. ★★ Available only to UK pension schemes and insurance companies engaged in pension business. a Tax free. b Figures based on prospectus or other official estimate. c Cents. d Dividend rate paid or payable on part of capital; cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast dividend: cover based on previous year's earnings. v Tax free up to 30p in the £. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1981-82. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1982. K Figures based on prospectus or other official estimates for 1981-82. M Dividend and yield based on prospectus or other official estimates for 1980. N Dividend and yield based on prospectus or other official estimates for 1981. P Figures based on prospectus or other official estimates for 1982. Q Gross. T Figures assumed. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL MARKETS

The following is a selection of London quotations of shares previously listed only in regional markets. Prices of Irish issues, most of which are not officially listed in London, are as quoted on the Irish exchange.

			IRISH		
Albany Inv. 20p	40	......	Conv. 9% '80/82	£92⅞	+⅛
Bertrams	8	......	Nat. 9¾% 84/89	£69⅞	......
Bdg'wtr. Est. 50p	410	......	Fin. 13% 97/02	£73	......
Craig & Rose £1	£13	......	Alliance Gas	63	......
Finlay Pkg. 5p	28	-1	Arnott	225	......
Graig Ship. £1	£19	......	Carroll (P.J.)	79½	......
Higsons Brew	68	-3	Concrete Prods.	90	......
Holt (Jos) 25p	520	-10	Heiton (Hldgs.)	27	......
I.O.M. Stm. £1	153	......	Irish Ropes	43	......
Pearce (C. H.)	780	......	Jacob	66	......
Peel Hldgs.	102	......	T.M.G.	14	-1
Sheff. Refrshmt	88	......	Unidare	65	-11
Sindall (Wm.)	194	......			

OPTIONS

3-month Call Rates

Industrials					
A. Brew	6½	House of Fraser	14	Utd. Drapery	6½
BOC Intl.	11	I.C.I.	18	Vickers	18
B.S.R.	7	"Imps"	5	Woolworths	5
Babcock	9	I.C.L.	4	**Property**	
Barclays Bank	56	Ladbroke	15	Brit. Land	7
Beecham	17	Legal & Gen.	20	Cap. Counties	11
Blue Circle	35	Lex Service	10	Land Secs.	30
Boots	18	Lloyds Bank	28	MEPC	20
Bowaters	19	"Lofs"	3½	Peachey	15
Brit. Aerospace	17	London Brick	7	Samuel Props.	13
B.A.T.	28	Lucas Inds.	18	Town & City	2¼
Brown (J.)	8	"Mams"	11		
Burton Ord.	12	Mrks. & Spncr	10	**Oils**	
Cadburys	8	Midland Bank	26	Brit. Petroleum	28
Courtaulds	5½	N.E.I.	8	Burmah Oil	11
Debenhams	7	Nat. West. Bank	30	Charterhall	6
Distillers	17	P & O Dfd.	10	KCA	12
Dunlop	7½	Plessey	26	Premier	6
Eagle Star	25	Racal Elect.	34	Shell	28
F.N.F.C.	3½	R.H.M.	5	Tricentrol	25
Gen. Accident	30	Rank Org. Ord.	18	Ultramar	40
Gen. Electric	55	Reed Intnl.	25		
Glaxo	28	Sears	5	**Mines**	
Grand Met.	16	Tesco	5½	Charter Cons.	21
G.U.S. 'A'	44	Thorn EMI	30	Cons. Gold	80
Guardian	30	Trust Houses	15	Lonrho	7
G.K.N.	12	Tube Invest.	18	Rio T. Zinc	45
Hawker Sidd	25	Turner & Newall	10		
		Unilever	50		

"Recent Issues" and "Rights" Page 22

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £600 per annum for each security

FINANCIAL TIMES

Monday September 28 1981

Foot faces test on manifesto

BY ELINOR GOODMAN, LOBBY CORRESPONDENT

MR. MICHAEL Foot's credibility as Labour leader faces an immediate test on Wednesday in the wake of the deputy leadership contest, on the issue of who writes the Party manifesto. This is the subject that has divided the party so deeply in the past.

After an argument yesterday in the party's National Executive Committee between Mr Foot and Mr Benn, it was agreed that Mr Foot should, on behalf of the executive, urge conference to preserve the leadership's veto on the contents of the manifesto.

The executive was split down the middle and the decision was made on the chairman's casting vote. It was a setback to Mr Benn and an indication of the way some of his old Left-wing allies on the executive have deserted him.

Nevertheless, Mr Benn's supporters yesterday remained optimistic that this year, after three previous unsuccessful attempts, the change in the rules for writing the manifesto would be approved. They claimed that APEX, the clerical workers' union, was mandated by its conference to support the idea of giving the final say on the manifesto to the National Executive and that this would be enough to swing the votes their way.

This would be a further blow to Labour moderates and, if the NEC were given the last word on the manifesto, make it far more likely that the kind of policies approved by the annual conference would get into the manifesto.

Apart from the reverberations of the deputy leadership contest, the main arguments over policy at this year's conference will probably be about defence and Northern Ireland.

Yesterday set the scene for this year's conference by confirming the demand for unilateral nuclear disarmament adopted at last year's party conference.

It met during the afternoon to decide its attitude to all the conference resolutions.

It agreed to recommend a motion essentially restating Labour's opposition to American bases in Britain and the deployment of Cruise missiles, and the party's commitment to a European nuclear-free zone.

However, it agreed to recommend avoiding a showdown on the key issue of Nato membership, which in the long-term could prove almost as divisive as the deputy leadership.

If conference did come out against Nato, it would put Mr Healey and other Labour moderates in a very difficult position indeed.

However, yesterday, some Labour moderates were complaining bitterly that a recommendation to remit the issue of Nato membership back to the executive would, in effect, put a question mark over Labour's commitment to Nato.

The pro-Europeans in the party received a further setback when the executive agreed to urge conference to reject a motion committing the party to a referendum on the EEC before pulling out.

Despite Mr Benn's setback on the manifesto issue which he has long regarded as central to his campaign to make the parliamentary leadership more accountable to party activists, the Left still have a large built-in majority on the NEC.

This year, however, the moderates seem poised to gain at least two additional seats with the Left-wing party treasurer, Mr Norman Atkinson, likely to be ousted.

Conference report, Page 6

EEC steel code support grows

BY ALAN PIKE

PRESSURE is mounting among British steel producers to reinforce the EEC Commission's efforts to restore price discipline in the industry by announcing firm increases in list prices early next year.

The mixture of mandatory and voluntary controls which regulate the West European industry is having some success in strengthening the price structure in Britain and the Continent. But because of the complex tangle of rebates and discounts which has developed in the industry, this improvement in effective prices has generally not been reflected in official price lists.

Steel price producers in the British private sector, most of whom continue to be under severe financial pressure, are determined that the time has arrived when they must convince consumers that the recent excesses of price cutting are over.

Under agreements reached in Eurofer, the EEC steelmakers' club, prices are due to increase by an average of 10 per cent during the final quarter of this year, and by a further 15 per cent in January. British producers want to demonstrate that a new attitude towards price discipline is being adopted in the steel industry by imposing some firm increases in list prices in January.

The industry's ability to do this depends upon the line taken by the British Steel Corporation, the market leader for most products. In a drive to restore its share of the British market lost during last year's national steel strike, BSC has fought to match import prices. Now that it has recovered its traditional market share, the corporation is likely to be as anxious as private producers to improve the value of its sales.

A British industry united around firmer prices might be exposed to the danger of imports rising again. But producers believe there is now a genuine determination within the West European industry to see the EEC quota rules work, and to stamp out unfair sales practices.

British producers are pleased to see that Bresciani—an Italian steelmaker previously regarded as a source of low-priced products—has notified an extensive range of list price increases to the EEC commission.

Britain's four leading wire rod producers—including Allied Steel and Wire, the company recently formed between the public and private sectors—have also deposited new price lists with the commission. Equally significantly, they have told consumers that they hope to phase out published rebates in the lists early next year.

These moves are in line with an attempt by Eurofer to improve the price structure throughout West Europe. Leaders of the group have written to all producers stressing that the objective of substantially raising prices is an "absolutely necessary condition" for a return to profitability and the creation of an efficient, competitive steel industry in the EEC.

Producers have been told that they must ensure that this message is "driven home to the merchants' national associations and to associations of consumers, as well as to each individual customer."

Continued from Page 1

Times

but time was running short. Journalists worked normally.

The Guardian, which is printed on Times Newspapers' presses, was optimistic it would achieve its London print run because NGA pickets said they would allow Guardian printers into the building.

The dispute provides a tough test for the hard-line approach to Fleet Street unions promised by Mr Rupert Murdoch when he bought The Times and The Sunday Times in February. On Friday, the management stopped paying the entire 1,400 staff at The Sunday Times and suspended publication after the NGA failed to provide an assurance that production would not be disrupted.

This is a harder line even than that suggested during negotiations on the purchase of the papers, when Mr Murdoch proposed that all the members of any single union should have their pay stopped if one of its chapel (office branches) caused disruption.

The Sunday Times' machine minders are seeking increases in pay and manning levels, which the management says would add 28.3 per cent to the machine minders' payroll costs.

The men want to make up differentials between themselves and the machine assistants, members of the National Society of Operative Printers, Graphical and Media Personnel (Natsopa), whose pay has risen from 80 per cent of that of the machine minders to 87.5 per cent in return for manning cuts

Car sales higher than expected

BY KENNETH GOODING

NEW CAR sales this year will be higher than expected but forecasts for new commercial vehicle registrations have been revised downwards.

The Society of Motor Manufacturers and Traders says new car registrations in 1981 could now reach 1.45m, compared with 1.41m forecast in May and actual sales of 1.51m in 1980.

The society has also revised upwards its forecast for 1982 from 1.45m cars predicted in May to 1.47m. This year's forecast has been particularly influenced by August results — the second best ever for the month.

But sales have been stimulated by cut-price and other offers, so in spite of conditions more buoyant than expected more dealers are not making profits on their new car business.

The society expects commercial vehicle registrations this year to be 215,000, against the main forecast of 220,000 and last year's actual total of 266,219.

The updated forecast for next year is for sales of 225,000 commercial vehicles against the main prediction of 230,000.

High interest rates are just another factor depressing the commercial vehicle market by affecting companies' cash flows and their ability to buy new capital equipment.

The society's forecast—a consensus view from UK-based manufacturers, importers and component groups—is important because the Japanese refer to it when deciding on vehicle shipments to the UK and how these can be held within the bounds of the voluntary restraint agreement limiting the Japanese market share to under 11 per cent.

Continued from Page One

French nationalisation

ing State bond rates. But a figure of FFr 35bn is equivalent to half this year's budget deficit which represents about 2.5 per cent of the GNP. Including interest payments, the total cost could be FFr 250bn over 15 years.

The COB findings show wide disparities in the impact on individual shares of the new compensation terms. Rhone-Poulenc shareholders will now be paid an estimated FFr 136 a share (21 per cent more than the Government's initial offer), Saint-Gobain shareholders FFr 156 (15 per cent) and investors in Paribas FFr 219 (4 per cent).

Compensation was originally to have been paid on the basis of the average share price for the three years ending 1980. Under the formula used in the Bill this method will apply to only 50 per cent of the evaluation, with 25 per cent based on companies' net assets and another 25 per cent on average net profits multiplied by 10.

For the five industrial groups —Rhone Poulenc, Pechiney Ugine Kuhlmann, Saint Gobain, CGE, Thomson Brandt—and the two holding companies Paribas and Suez the average increase per share under the new compensation formula is 12 per cent.

The Minister of the Budget, M Laurent Fabius, said in his evidence to the Parliamentary Commission that under the initial evaluation the Government had expected to pay about FFr 30bn—of which FFr 12bn was for the industrial groups, FFr 11bn for the banks and FFr 6bn for Paribas and Suez.

Under the revised formula "several billion" francs more would be payable. Shareholders would be getting about 50 per cent more per share than on the basis of Bourse values at the end of July, he said.

The COB's reservations on its estimates concern definition of market price per share, and allowances in some company accounts for provisions for tax payments.

Cement price rise talks start

BY ANDREW TAYLOR

BUILDING and civil engineering employers will meet cement manufacturers today in the first of a series of key meetings to discuss proposed cement price increases this November.

The talks are taking place amid growing concern by some cement producers that sharp rises in UK prices could increase the danger of cut-price imported cements being sucked into Britain from Europe.

Earlier this year British cement manufacturers scrapped plans to raise their prices by a further four to six per cent in July, but warned that cement prices might have to rise by between nine and 12 per cent in November to offset rising production costs.

But there remain differences of opinion between some manufacturers over the size of proposed increases. Blue Circle, the country's largest cement producer, would prefer to keep rises to a minimum. Rugby Portland, the second biggest producer, would like to see a larger increase to offset rising costs and restore operating margins.

Blue Circle, which controls around 60 per cent of the home market, feels particularly exposed to the threat of foreign imports. It is a major supplier to some of the more vulnerable outlying UK markets and has a substantial operating base in the south east just across the Channel from major European market ports.

Blue Circle's greatest fear is that if UK prices rise too steeply it may eventually become cost effective for European suppliers to establish a bulk import terminal in the Thames.

The amount of cement imported into Britain is negligible. But some UK manufacturers are concerned that because of subsidised energy costs some European manufacturers could already land cement on these shores more cheaply than it would cost to produce it in Britain.

So far the cost of establishing distribution networks and storage depots in the UK has been prohibitive to European producers. But more recently there have been reports of bagged cement from Holland being landed in the Orkneys, some of which has been finding its way to mainland Scotland, according to some British manufacturers.

UK CEMENT DELIVERIES
(1,000 tonnes)

Year	Home deliveries
1975	16,681
1976	15,452
1977	14,389
1978	14,745
1979	14,338
1980	14,034

Source: Department of the Environment

Nevertheless the UK cement industry is under strong pressure with UK deliveries falling by a further 18 per cent, allowing for seasonal adjustment, in the first half of this year. Blue Circle, was particularly affected, however, by industrial action at its cement works.

In the past few weeks there have been signs that the slide in UK construction orders has been stemmed at least for the time being. But with construction output still expected to decline by up to a further 11.5 per cent this year, and with the next upturn in output unlikely before 1983, pressures on cement manufacturers seem unlikely to diminish.

Today's meeting with construction employers — and later talks planned with ready-mix concrete producers — are expected to centre around three main areas of concern:

● The impact of planned increases on an already hard-pressed construction sector and the possibility of any further sharp price rises putting renewed pressure on the UK cement-makers pricing agreement.

● The likely level of proposed increases in coal prices this winter, and the need for cement manufacturers to restore operating margins following their 11.75 per cent price increase in March this year.

● The possibility of cement imports entering the UK as a result of higher home prices.

Building, Page 9

Gilts pose funding dilemma for Government

By Anatole Kaletsky

THE SLUMP in the London stock market during the last two weeks has sharpened the dilemmas over funding tactics faced by the Government in its attempt to control the money supply.

The past fortnight's collapse of equity prices was accompanied by a more modest decline in gilt-edged stocks—the FT 30 share index fell by 14.2 per cent; the Government Securities index by 4.9 per cent.

But the combination of turbulent conditions in the equity market and the precarious position of sterling in the foreign exchanges has reduced net gilt-edged sales by the Government Broker to a negligible level in the banking month which ends on October 21, according to City estimates.

In the previous banking month, gilt-edged sales were also at a depressed level, estimated between £200m and £300m. This compares with net monthly funding of around £1bn achieved in the early months of the financial year and assumed in the City to be necessary for the achievement of the Government's monetary targets.

Poor money supply figures for September and October are already well discounted in the market. But there is some concern among gilt-edged analysts about the Government's lack of options in continuing to fund its borrowing requirement. Conventional gilt-edged taps would appear to be impossible until the market stabilises.

The main alternative to conventional gilt issues would be index-linked funding. Last week it was announced that the index-linked national savings certificates which were made available to all personal investors on September 7 pulled in about £83m in their first two weeks of issue.

Although this rate of sales may well increase as the certificates become more familiar, it is considered likely in the City that the Government will soon need to sell further tranches of index-linked bonds to institutional investors in the stock market.

However, pension funds, to which index-linked gilts have been restricted in the past, may not be interested in purchasing further issues in sufficient quantities at present. Thus there is a heated debate among economic policymakers about whether to extend eligibility for index-linked bonds to other institutions and, perhaps, to personal investors.

This would present formidable practical difficulties, particularly on the question of how to tax the capital apppreciation on an index-linked bond.

Weather

UK TODAY

SHOWERS, prolonged in the West, with sunny intervals especially in the South and East.

London, S., S.W. and E. England, Midlands, Channel Isles, Wales
Scattered showers with sunny intervals, moderate winds becoming light. Max. 15C (59F).

N. England, S. and Central Scotland and N. Ireland
Showers, sunny intervals. Max. 14C (57F).

N. Scotland, Orkney, Shetland
Showers with moderate to strong winds. Max. 14C (57F).

Outlook: Continuing unsettled. Near normal temperatures.

WORLDWIDE

		Y'day midday °C	°F			Y'day midday °C	°F
Ajaccio	F	24	75	L. Ang.†	C	18	64
Algiers	F	26	79	Luxmbg.	F	14	57
Amsdm.	S	17	63	Luxor	S	36	97
Athens	S	27	81	Madrid	F	16	61
Bahrain	—	—	—	Majorca	F	22	72
Barclna.	F	21	70	Malaga	F	23	73
Beirut	S	29	84	Malta	S	29	84
Belfast	C	13	55	M'chstr	R	13	55
Belgrd.	S	28	82	Melbne.	—	—	—
Berlin	S	22	72	Mx. C.†	—	—	—
Biarritz	C	15	59	Miami†	T	24	75
Bmghm.	F	14	57	Milan	F	20	68
Blackpl.	R	12	54	Montrl.†	R	14	57
Bordx.	F	14	57	Moscow	S	18	64
Boulgn.	F	13	55	Munich	C	14	57
Bristol	S	15	59	Nairobi	—	—	—
Brussels	F	17	63	Naples	S	27	81
Budpst.	S	24	75	Nassau	—	—	—
Cairo	—	—	—	Nwcstl.	C	13	55
Cardiff	F	15	59	N York†	S	18	64
Cas'b'ca	S	22	72	Nice	S	22	72
Cape T.	—	—	—	Nicosia	—	—	—
Chicg.†	S	10	50	Oporto	F	18	64
Cologne	F	14	57	Oslo	C	17	63
Cpnhgn.	F	17	63	Paris	C	14	57
Corfu	S	27	81	Perth	—	—	—
Denver†	C	8	46	Prague	S	21	70
Dublin	R	13	55	Rykjvk.	S	6	43
Dbrvnk.	S	25	77	Rhodes.	S	25	77
Ednbgh	R	13	55	Rio J'o†	—	—	—
Faro	S	22	72	Rome	F	24	75
Florence	—	—	—	Salzbrg.	F	17	63
Frankft.	C	13	55	S'ciaco†	C	16	61
Funchal	S	22	72	S. Mritz.	—	—	—
Geneva	S	16	61	Singapr.	—	—	—
Gibrltr.	F	23	73	S'tiago†	—	—	—
Gl'sg'w	R	13	55	Stckhm.	C	14	57
G'rnsey	S	14	57	Strasbg.	S	15	59
Helsinki	C	12	54	Sydney	—	—	—
H. Kong	—	—	—	Tangier	S	22	72
Innsbrk.	F	22	72	Tel Aviv	S	29	84
Invrnss.	R	13	55	Tenerife	C	23	73
I.o.Man	—	—	—	Tokyo	—	—	—
Istanbul	F	22	72	T'r'nto†	C	18	64
Jersey	F	15	59	Tunis	S	32	90
Jo'burg	—	—	—	Valencia	R	17	63
L. Plms.	F	24	75	Venice	R	18	64
Lisbon	F	20	68	Vienna	S	23	73
Locarno	T	19	66	Warsaw	S	23	73
London	T	15	59	Zurich	C	11	52

C—Cloudy. F—Fair. Fg—Fog. H—Hail. R—Rain. S—Sunny. Sl—Sleet. Sn—Snow. T—Thunder.
†Noon GMT temperatures.

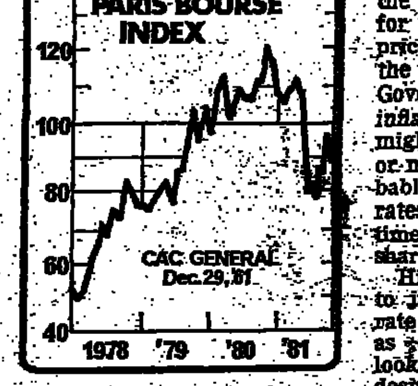
THE LEX COLUMN

New tolls on the Route Nationale

The political battle over the first round of French nationalisation proposals moved into its final stages last week with the publication of a draft law covering compensation for shareholders. In order to avoid a prolonged constitutional barney, the Government has gracefully accepted the views of the Conseil d'Etat—an august body not generally given to pronouncing on stock market matters—to the effect that asset value and recent earnings should be taken into account when assessing a fair price for compulsory purchase.

So whereas compensation under the preliminary proposals was based on an average of the market prices of the shares concerned over the three years 1978-80 (a period unaffected by this year's post-electoral panic), this formula will only account for half the price under the modified scheme. Net asset value at December 1980 will contribute another quarter of the sum, and the final 25 per cent is made up with reference to average net earnings over the 1978-80 period multiplied by 10.

Unfortunately the draft law is not absolutely clear on certain points. Paris brokers are quoting a wide range of possible compensation prices for certain stocks depending on whether parent company net asset value, or a consolidated figure comprising full valuation of overseas subsidiaries is used.



Divergence

When Bourse prices were the only yardstick, it was generally agreed that Thomson-Brandt shares, for example, would be bought out at FFr 216—which compares with FFr 250 just before the election and FFr 190 when suspended a few weeks ago—there is now no real degree of consensus. For Paribas, prices between FFr 210 and FFr 300 can be struck, depending on the asset value chosen. Under the original proposals, the sum works out to FFr 211. The price before the election was FFr 248, the suspension price FFr 195.50.

On the assumption that the outcome will be somewhere near the lower end of the brokers' range, the new proposals will in general lead to a modest improvement—perhaps 10 per cent on average—over the original ones. The uplift will be smaller in cases where companies have been unprofitable, such as Pechiney and Rhone-Poulenc, or where the market rating—as in the case of Paribas—already gave quite a high figure on the price-linked formula.

For growth stocks such as Matra and Dassault — which are not included in the first batch of nationalisations — the second formula is less favourable than the first, since these companies have long been traded above asset value, and for them a p/e ratio of 10 looks downright insulting.

With the important caveat that the application of one formula to companies with very different characteristics is bound to throw up some rather capricious results, it looks from across the Channel as though the French government has bent over backwards to offer reasonable terms. This has nothing to do with the saintly nature of politicians: reassuring the foreign investment community (France has an impressive current account deficit to finance) is a major priority for M Mitterrand's administration.

Needless to say, the companies involved do not take the view that the terms are fair, and wrangling is likely to go on until the last minute. Some of them seem to have been trying to take advantage of the Socialists' presumed inexperience in sordid commerce by demanding the sort of prices they would only receive in a three-cornered no-holds-barred takeover bid backed by billion-dollar eurocredits. Nationalisation, unfortunately, is not as exciting as this.

The companies have been curiously unwilling to accept that stock market prices put anything like a fair value on their businesses; this despite the fact that some of them saw fit to have large rights issues in 1979 and 1980. During this period the French equity market was very strong, helped by a firm currency, an enviably stable inflation rate, and a Government committed to dismantling controls on free enterprise. In addition, share prices were artificially boosted by personal tax concessions favouring investment in French equities.

It is on the basis of their performance in this happy age that the companies are being valued for nationalisation. Equity prices are now plunging around the world. The new French Government is wrestling with *inflationary* pressures which might force it to slap on price or margin controls. It will probably have to keep interest rates at high level for some time to come to finance a sharply rising budget deficit.

High interest rates will lead to juicy yields on the floating rate stock which is to be issued as compensation, and which looks to have been genuinely designed to trade near par. It may not do so initially if there is a rush to turn it into cash, but in any case this form of security is infinitely better than the sort of 10 per cent paper that French investors were frightened of being bought out with earlier in the year.

It is just conceivable that an unscrupulous administration at some time in the future might try to rig long bond yields in order to reduce the servicing costs on FFr 25bn or so of stock.

The existence of open market quotations for shares in the companies concerned should have made the question of fixing a compensation price — which is bound to be to some degree arbitrary — a good deal less controversial than that faced by the British Labour government which nationalised the aircraft and shipbuilding industries. There the pricing arguments were tortuous, since most of the companies concerned were larger groups. The British government proceeded to pay late, and in fixed-interest paper, both of which expedients the French have rightly rejected.

Equity shortage

Although the fundamental position of the Paris Bourse looks very poor at the moment, the technical position is going to be curiously strong this winter. The Loi Monory tax concessions are entering their last year, and the tax-exempt unit trusts will be buyers. The relative shortage of equities after the nationalisations could push the companies that remain in private hands up to premium levels. On the other hand, the paradoxical possibility that the Socialists may abolish capital gains tax (because it costs more to administer than it yields) may — perversely — cause selling as long-standing profits are taken. In this peculiar environment, a large holding of floating rate bonds in a portfolio look rather a good idea.

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